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WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

MANSFIELD, LOUISIANA

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FINANCIAL STATEMENTS

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 2/11/99

Marsha O. Millican
Certified Public Accountant
Shreveport, Louisiana

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Financial Statements
December 31, 1998

Table of Contents

	<u>EXHIBIT</u>	<u>PAGE</u>
Independent Auditor's Report		1
Component Unit Financial Statements:		
Balance Sheet	1	2
Statement of Revenues, Expenses, and Changes in Retained Earnings	2	3
Statement of Cash Flows	3	4
Notes of Financial Statements		5-8
Independent Auditor's Report on Internal Control Structure Based on an Audit of General Purpose Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		9-10
Independent Auditor's Report on Compliance Based on an Audit of the General Purpose Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		11

Marsha O. Millican

CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

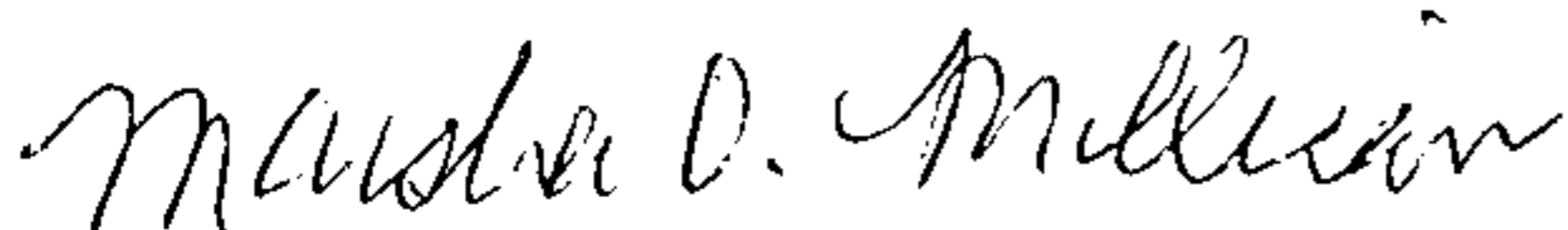
Board of Commissioners
Waterworks District No. 1 of the Parish of DeSoto
Mansfield, Louisiana

I have audited the accompanying component unit financial statements of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana, a development stage component unit of the DeSoto Parish Police Jury, as of and for the year ended December 31, 1998. These component unit financial statements are the responsibility of Water works District No. 1 of the Parish of DeSoto, State of Louisiana's, management. My responsibility is to express an opinion on these component unit financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit 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 component unit financial statements referred to above present fairly, in all material respects, the financial position of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana, as of December 31, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated June 18, 1999, on my consideration of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana's internal control structure and a report dated June 18, 1999, on its compliance with laws and regulations.



Certified Public Accountant
June 18, 1999

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTOBalance Sheet
December 31, 1998Assets

Cash	\$ 49,678
Taxes Receivable	950,436
Investments	3,533,958
Construction in Progress	7,911,895
Bond Issuance Costs	<u>77,825</u>
Total Assets	<u>\$12,523,792</u>

Liabilities and EquityLiabilities

Revenue Bonds Payable	\$ 9,800,000
Accrued Interest on Revenue Bonds	<u>139,822</u>
Total Liabilities	<u>9,939,822</u>

Equity

Retained Earnings:	
Reserved for Revenue Bond Retirement	1,052,273
Unreserved	<u>1,531,697</u>
Total equity	<u>2,583,970</u>

Total Liabilities and Equity	<u>\$12,523,792</u>
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See accompanying notes to financial statement.

WATERWORKS DISTRICT NO. 1 OF LOUISIANAStatement of Revenues, Expenses, and Changes in
Retained EarningsYear Ended December 31, 1998

Revenues:	
Ad valorem taxes	\$ 997,653
Miscellaneous revenues	<u>5,391</u>
Total revenues	1,003,044
Operating expenses:	
Administrative expenses	<u>19,930</u>
Operating income	983,114
Non-operating revenues	
Interest income	<u>305,924</u>
Net income	1,289,038
Retained earnings - beginning of year	<u>1,294,932</u>
Retained earnings - end of year	<u>\$ 2,583,970</u>

See accompanying notes to financial statements.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTOStatement of Cash Flows - Proprietary Fund Type
Year Ended December 31, 1998

Cash flows from operating activities:	
Ad valorem taxes received	\$ 1,168,945
Cash payments to suppliers	(19,930)
Other operating income	<u>5,391</u>
Net cash provided by operating activities	<u>1,154,406</u>
Cash flows from capital and related financing activities:	
Construction in progress	(7,334,354)
Bond issuance costs	(39,012)
Principal payments on revenue bonds	<u>(100,000)</u>
Net cash provided by capital and related financing activities	<u>(7,473,366)</u>
Cash flows from investing activities:	
Transfers to LAMP investments	(1,410,351)
Withdrawals from LAMP investments	7,467,748
Interest received on investments	<u>305,924</u>
Net cash provided by investing activities	<u>6,363,321</u>
Net increase in cash	44,361
Cash, beginning of year	<u>5,317</u>
Cash, end of year	<u>\$ 49,678</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 983,114
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in taxes receivable	<u>171,292</u>
Net cash provided by operating activities	<u>\$ 1,154,406</u>

See accompanying notes to financial statements.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 1998

Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana, was created by Ordinance No 2, of the DeSoto Parish Police Jury on July 24, 1969. The ordinance states that the purpose of the District is to facilitate plans and arrangements for feasibility studies and surveys and the financing, construction, development and operation of a water works system to provide a public water supply within the proposed District. The District is a component unit of the DeSoto Parish Police Jury and is governed by a board of nine commissioners appointed by DeSoto Parish Police Jury.

Waterworks District No. 1 of the Parish of DeSoto is in the process of constructing a \$9,900,000 water system to assist in meeting the domestic, commercial and fire protection demands in DeSoto Parish within the boundaries of the District. Construction of this system is being funded with revenues from a 5.5 mill ad valorem tax proposition passed by voters of April 5, 1997. A 1.01 mill property tax millage authorized to be levied in the years 1997 through 2006 to subsidize operation and maintenance expenses of the system was also passed April 5, 1997.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Waterworks District No. 1 of the Parish of DeSoto have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The following is a summary of the more significant accounting policies:

Basis of Accounting. The accrual basis of accounting is utilized by the District. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Investments. Investments are stated at cost which approximates market.

Bad Debts. Uncollectible amounts due for ad valorem taxes are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable.

Cash Flows. For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

2. CASH:

At December 31, 1998, all cash balances were fully insured by FDIC insurance.

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements

December 31, 1998

3. PER DIEM PAID TO COMMISSIONERS:

No per diem was paid to commissioners for the year ended December 31, 1998.

4. TAXES RECEIVABLE:

Ad valorem taxes are collected by the DeSoto Parish Sheriff and remitted to the District on a monthly basis. For the year ended December 31, 1998, taxes of 6.51 mills were levied on property with assessed valuations totaling \$153,490,816. Of the total millage, 5.5 mills are dedicated to bond retirement and 1.01 mills are dedicated for general operating purposes.

Total taxes levied were \$999,653. Taxes receivable at December 31, 1998 consisted of the following:

Taxes receivable	\$ 960,112
Less: Allowance for uncollectible taxes	<u>(9,676)</u>
Total	<u>\$ 950,436</u>

5. INVESTMENTS:

Investments consist of funds invested in the Louisiana Asset Management Pool (LAMP). LAMP was established and is administered by LAMP, Inc., a nonprofit corporation organized under the law of the State of Louisiana. LAMP accepts deposits from public entities. Upon the making of an investment, a public entity becomes a member of LAMP, Inc., similar to a corporate shareholder, and is authorized to exercise certain rights with respect to the governance of the corporation. At December 31, 1998, funds on deposit with LAMP (at cost) totalled \$ 3,533,958.

Total net assets of LAMP at December 31, 1998 were as follows:

	Face Amount	Market Value
Federal Farm Credit Bank Notes	\$ 10,000,000	\$ 9,995,217
Federal Home Loan Bank Notes	121,000,000	120,571,117
FHL Mtg Discount Notes	110,000,000	109,444,862
FNMA Notes	59,962,000	59,658,099
Student Loan Mkt Notes	70,000,000	69,971,416
Repurchase Agreements	214,660,000	<u>214,660,000</u>
Total Investments		584,300,711
Less: Liabilities		<u>(1,171,215)</u>
Net Assets		<u>\$ 583,129,496</u>

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 1998

5. INVESTMENTS: (CONTINUED)

The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 1998. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the District or in the District's name.	\$ -
Category 2 - Collateralized with securities held by the pledging institution or by its agent in the District's name.	-
Category 3 - Uncollateralized	<u>3,533,958</u>
Total investments	<u>\$ 3,533,958</u>

6. CONSTRUCTION IN PROGRESS:

Construction in progress consists of costs incurred during the construction of the \$9,900,000 water system. At December 31, 1998, the project was 80% complete. Capitalized interest included in construction in progress totalled \$ 698,546.

7. BONDS PAYABLE:

The District issued \$9,900,000 of general obligation bonds dated October 1, 1997, for the purpose of constructing a waterworks system with the first principal payment of \$100,000 due on April 1, 1998. Interest payments are due on April 1, and October 1 annually with interest rates varying from 8% to 4.5% over the life of the bond issue.

The annual requirements to amortize all long-term debt outstanding as of December 31, 1998, including interest payments of \$ 5,363,850 are as follows:

<u>Year Ending December 31</u>	<u>Total</u>
1999	809,125
2000	811,925
2001	812,725
2002	811,525
2003	813,125
2004 - 2017	<u>11,105,425</u>
Totals	<u>\$ 15,163,850</u>

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 1998

8. PENDING LITIGATION AND CONTINGENT LIABILITIES:

On December 29, 1998, the District passed a resolution to issue \$500,000 Water Revenue Bonds for the purpose of providing funds to construct and acquire a water treatment plant and to pay other costs of acquiring and constructing a waterworks system for the District. Three municipalities have filed suit to prevent the District from issuing these bonds and using funds from the original \$9,900,000 bond issue to build a water treatment plant. The effect of this litigation on the financial statements of the District is undetermined.

Marsha O. Millican

CERTIFIED PUBLIC ACCOUNTANT

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

Board of Commissioners
Waterworks District No. 1 of the Parish of DeSoto
Mansfield, Louisiana

I have audited the component unit financial statements of Waterworks District No. 1 of the Parish of DeSoto, as of and for the year ended December 31, 1998, and have issued my report thereon dated June 18, 1999.

I conducted my audit in accordance with generally accepted auditing standards, and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Waterworks District No. 1 of the Parish of DeSoto, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the component unit financial statements of Waterworks District No. 1 of the Parish of DeSoto for the year ended December 31, 1998, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

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

Finding: The segregation of duties is inadequate to provide effective internal control.

Cause: The condition is due to economic and space limitations.

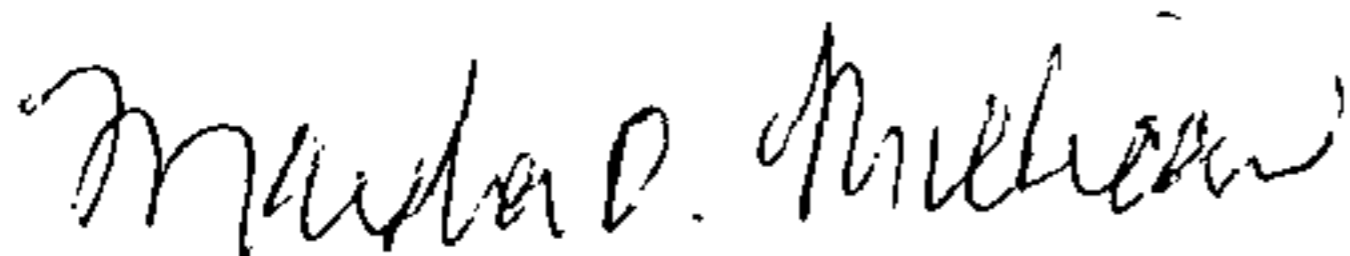
Recommendation: No action is recommended.

Management's Response: We concur with the finding.

A material weaknesses is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I believe that the reportable condition described above is a material weakness.

This report is intended for the information of management, the Board of Commissioners, and applicable federal and state cognizant agencies. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountant
June 18, 1999

Marsha O. Millican

CERTIFIED PUBLIC ACCOUNTANT

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

Board of Commissioners
Waterworks District No. 1 of the Parish of DeSoto
Mansfield, Louisiana

I have audited the component unit financial statements of Waterworks District No. 1 of the Parish of DeSoto, as of and for the year ended December 31, 1998, and have issued my report thereon dated June 18, 1999.

I conducted my audit in accordance with generally accepted auditing standards, and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Waterworks District No. 1 of the Parish of DeSoto, is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, my objective was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

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

This report is intended for the information of management, the Board of Commissioners, and applicable federal and state cognizant agencies. However, this report is a matter of public record and its distribution is not limited.

Marsha O. Millican

Certified Public Accountant
June 18, 1999