

100-111111
9211105 111 02

**OFFICIAL
FILE COPY**

DO NOT SEND OUT

(Xerox necessary
copies from this
copy and PLACE
BACK in FILE)

99600489
8769
20

**WATERWORKS DISTRICT NO. 7
CADDOPARISH, LOUISIANA**

FINANCIAL STATEMENTS

June 30, 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 DEC 02 1998

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Table of Contents
June 30, 1998

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Balance Sheet	2
Statement of Revenue and Expenses	3
Statement of Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to Financial Statements	6-12
Supplemental Information:	
Schedule of Board of Directors' Compensation and Expense Reimbursement	13
Schedules of Findings and Questioned Costs	14-15
Other Reports:	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16



SMITH PUGH RABINOWITZ L.L.P. CERTIFIED PUBLIC ACCOUNTANTS

610 MARSHALL STREET SUITE 800 • SHREVEPORT, LOUISIANA • 71101-5332 • TELEPHONE 318 222 5701 • FAX 318 424 4736
401 HAMILTON ROAD SUITE 112 • BOSSIER CITY, LOUISIANA 71111 • TELEPHONE 318 742 4935 • FAX 318 742 4989

INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Waterworks District No. 7
Caddo Parish, Louisiana

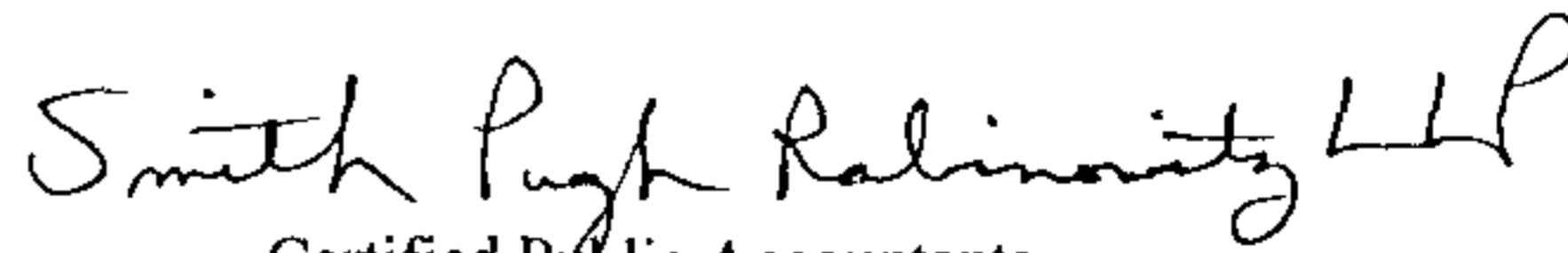
We have audited the accompanying general purpose financial statements of Waterworks District No.7, Caddo Parish, Louisiana, a component unit of the Parish of Caddo, State of Louisiana, as of and for the year ended June 30, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of Waterworks District No. 7, Caddo Parish, Louisiana'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Waterworks District No. 7, Caddo Parish, Louisiana as of June 30, 1998, and the results of its operations and cash flows of its proprietary fund type for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 1998, on our consideration of Waterworks District No. 7, Caddo Parish, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Waterworks District No. 7, Caddo Parish, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.


Certified Public Accountants
Shreveport, Louisiana

October 1, 1998

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Balance Sheet
June 30, 1998

ASSETS

Current Assets:

Cash	\$ 102,523
Accounts receivable, net	47,790
Prepaid expenses	<u>4,263</u>
Total current assets	<u>154,576</u>

Property, plant and equipment, net

1,420,308

Restricted Assets:

Cash	<u>299,372</u>
------	----------------

Total Assets

\$ 1,874,256

LIABILITIES AND EQUITY

Current Liabilities:

Accounts payable	\$ 9,867
Interest payable	71,955
Current portion of long-term debt	<u>31,885</u>
Total current liabilities	<u>113,707</u>

Long-term Liabilities:

Bonds payable	<u>1,426,826</u>
---------------	------------------

Total Liabilities

1,540,533

Equity:

Contributed capital	19,736
Retained earnings	
Reserved	278,565
Unreserved	<u>35,422</u>
Total retained earnings	<u>313,987</u>

Total Equity

333,723

Total Liabilities and Equity

\$ 1,874,256

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Statement of Revenues and Expenses
For the Year Ended June 30, 1998

Operating revenue:	
Water sales	\$ 343,625
Meter fees and connection charges	<u>53,650</u>
Total operating revenue	<u>397,275</u>
Operating expenses:	
Advertising	225
Auto expense	2,876
Bad debt expense	6,093
Board member fees	10,320
Depreciation	35,361
Insurance	3,882
Interest	86,588
Lease expense	3,364
Office expense	10,133
Professional fees	5,250
Repairs and maintenance	66,457
Salaries	50,676
Taxes and licenses	3,639
Utilities	<u>24,163</u>
Total operating expenses	<u>309,027</u>
Operating Income	<u>88,248</u>
Nonoperating income (expense):	
Ad valorem taxes	17,403
Interest	5,177
Miscellaneous Income	<u>287</u>
Total nonoperating income (expense):	<u>22,867</u>
Net income	<u>\$ 111,115</u>

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Statement of Changes in Retained Earnings
For the Year Ended June 30, 1998

	Reserved					
	New Well Fund	Depreciation Fund	Note Reserve Fund	Bond Sinking Fund	Keith Rd. Well Fund	Ad Valorem Tax Fund
	Unreserved	Unreserved	Unreserved	Unreserved	Unreserved	Total
Balance, June 30, 1997	\$ 26,261	\$ 35,024	\$ 39,669	\$ 64,875	\$ 4,000	\$ 72,329
Adjustment for reserve requirements	-	6,891	61,942	(53,416)	8,516	12,474
Net Income						111,115
Balance, June 30, 1998	<u>\$ 26,261</u>	<u>\$ 41,915</u>	<u>\$ 101,611</u>	<u>\$ 11,459</u>	<u>\$ 12,515</u>	<u>\$ 84,803</u>
					<u>\$ 35,422</u>	<u>\$ 313,987</u>

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Statement of Cash Flows
For the Year Ended June 30, 1998

Cash Flows from Operating Activities

Net income	\$ 111,115
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	35,361
Decrease in accounts receivable	(8,593)
Increase in prepaid expenses	(588)
Decrease in accounts payable	4,387
Increase in interest payable	<u>(730)</u>
Net cash provided by operating activities	<u>140,952</u>

Cash Flows from Investing Activities

Payments for property, plant & equipment	<u>(151,729)</u>
Net cash used in investing activities	<u>(151,729)</u>

Cash Flows from Financing Activities

Repayment of notes payable	(17,000)
Repayment of bonds payable	<u>(16,425)</u>
Net cash used in financing activities	<u>(33,425)</u>

Net decrease in cash	<u>(44,201)</u>
Cash, June 30, 1997	<u>446,096</u>
Cash, June 30, 1998	<u>\$ 401,895</u>

Supplemental disclosure:

Interest paid during the year ended June 30, 1998 totaled \$99,398.

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Notes to Financial Statements
June 30, 1998

1. Nature of Organization and Significant Accounting Policies:

Waterworks District No. 7, Caddo Parish, Louisiana (the District) is a component unit of the Parish of Caddo, State of Louisiana. It was organized in 1981 to provide water service to the Keithville, Louisiana area.

Summary of Significant Accounting Policies

The accounting and reporting policies of the District conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the "Louisiana Municipal Audit and Accounting Guide."

The following is a summary of certain significant accounting policies:

- A. Reporting Entity - This report includes all funds and account groups which are controlled by or dependent on the District's Board of Commissioners. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibilities.
- B. Fund Accounting - The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. Only one fund is used by the District as of and for the year ended June 30, 1998:

Proprietary Fund Type:

Enterprise Fund - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed through user charges. The District maintains an Enterprise Fund for water utilities provided.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

- C. Basis of Accounting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Notes to Financial Statements
June 30, 1998

1. Nature of Organization and Significant Accounting Policies (Continued):

C. Basis of Accounting - (Continued)

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.

The preparation of financial statements generally requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Investments - Legal investments by municipalities are restricted according to Louisiana Revised Statute 39:1276 as follows:

- (1) Direct U.S. Treasury obligations, the principal and interest of which are fully guaranteed by the U.S. government.
- (2) The certificates of deposit of state banks organized under the laws of Louisiana, or national banks having their principal offices in the state of Louisiana, savings accounts or shares of savings and loan associations and savings banks, or share accounts and share certificates accounts of federally or state chartered credit unions issuing time certificates of deposit. Funds invested in accordance with this paragraph shall not exceed at any time the amount insured by the Federal Deposit Insurance Corporation in any one bank, or in any one savings and loan association, or by the National Credit Union Administration in any one credit union, unless the uninsured portion is collateralized by the pledge of securities in the manner provided in R.S. 39:1221.
- (3) Mutual or trust fund institutions which are registered with the Securities and Exchange Commission under the Securities Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the U.S. government or its agencies.

Cash and cash equivalents are comprised of daily cash balances above the day-to-day needs and funds set aside for portfolio strategy reasons. Short term investments of cash and cash equivalents may be placed in:

- (1) Obligations of the U.S. Treasury, federal agencies, or U.S. government instrumentalities (as provided herein) with maturities of less than 2 years.
- (2) Time certificates of deposit, as provided herein.
- (3) Money market mutual funds, as provided herein.
- (4) The Louisiana Asset Management Pool, Inc. as provided in Op. Atty. Gen. 94-186.

For fiscal year 1998, the District had no investments other than cash.

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Notes to Financial Statements
June 30, 1998

1. Nature of Organization and Significant Accounting Policies (Continued):

- E. Bad Debts - Uncollectible amounts due for the customers' utility and ad valorem taxes receivable 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. No provision for ad valorem taxes receivable has been deemed necessary. The allowance for uncollectible customer's utilities at June 30, 1998 and June 30, 1997 were \$-0- and \$5,600 respectively.
- F. Property, Plant, and Equipment - Additions to the utility plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Capitalized construction period costs including interest charges, are included in the cost of assets. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method of depreciation. The estimated service lives by asset type are as follows:

Treatment plant	10-50 years
Distribution system	50 years
Meters	20 years
Building	20 years
Furniture and fixtures	5 years

- G. Restricted Assets - The District, because of certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash) that can be used only to service outstanding debt.
- H. Compensated Absences - No liability is recorded for nonvesting accumulating rights to receive vacation or sick pay benefits.
- I. Statement of Cash Flows - For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.
- J. Inventories - Inventory of supplies held by the District is not material and is charged to operations as purchased.
- K. Fund Equity - Contributed capital is recorded by the District for capital grants restricted for the acquisition or construction of capital assets. Contributed capital is not amortized based on the depreciation recognized on that portion of the assets acquired or constructed from such resources.

Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use.

- L. Income Taxes - The District is a political subdivision of the Parish of Caddo, State of Louisiana, and as such, is not subject to federal and state income taxes. Accordingly, no provision for such taxes has been made.

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Notes to Financial Statements
June 30, 1998

2. Cash:

The District's cash is categorized to give an indication of the level of risk assumed by the District at June 30, 1998. The categories are described as follows:

- Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 - Uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

Cash deposits at June 30, 1998, categorized by level of risk, are:

<u>Description</u>	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Unrestricted	\$ 26,944	\$	\$ 75,579	\$ 102,523	\$ 102,523
Restricted	<u>93,864</u>	<u> </u>	<u>205,508</u>	<u>299,372</u>	<u>299,372</u>
Total cash	<u>\$ 120,808</u>	<u>\$ -</u>	<u>\$ 281,087</u>	<u>\$ 401,895</u>	<u>\$ 401,895</u>

3. Ad Valorem Taxes:

The District levies taxes on real and business personal property within its boundaries. Property taxes attach as an enforceable lien on property as of January 1 of each year. Property taxes are recorded as receivables and revenue in the year assessed to the extent that revenues are collected within 60 days after year-end.

The authorized and levied ad valorem taxes for the year ended June 30, 1998, totaled 4.69 mills. The taxes levied during the year ended June 30, 1998, were \$20,021 on property with an assessed value of \$4,055,080.

4. Components of Restricted Assets:

The following is a list of the components of restricted assets:

Cash - Reserve Account	\$ 11,459
Cash - Ad Valorem Tax Fund	84,803
Cash - Note Revenue Fund	101,611
Cash - New Well Fund	26,261
Cash - New Well Fund - Keith Road	12,515
Cash - Construction Fund	20,808
Cash - Depreciation Fund	41,915
	<u>\$ 299,372</u>

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Notes to Financial Statements
June 30, 1998

5. Property, Plant and Equipment:

Property, plant and equipment consist of the following:

Water distribution system (includes capitalized interest of \$1,690)	\$	1,220,794
Water treatment plant		515,018
Meters		16,896
Building		4,890
Furniture and equipment		25,577
Land		<u>25,200</u>
		1,808,375
Less accumulated depreciation		<u>(388,067)</u>
		<u>\$ 1,420,308</u>

6. Changes in Long-Term Debt:

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 1998:

	<u>General Obligation</u>	<u>Utilities Revenue</u>	<u>Certificates of Indebtedness</u>	<u>Total</u>
Debt payable at June 30, 1997	\$ 179,000	\$ 1,113,136	\$ 200,000	\$ 1,492,136
Debt retired	<u>4,000</u>	<u>12,425</u>	<u>17,000</u>	<u>33,425</u>
Debt payable at June 30, 1998	<u>\$ 175,000</u>	<u>\$ 1,100,711</u>	<u>\$ 183,000</u>	<u>\$ 1,458,711</u>

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Notes to Financial Statements
June 30, 1998

6. Changes in Long-Term Debt (Continued):

Debt payable at June 30, 1998 is comprised of the following individual issues:

General obligation

\$213,000 Public Improvement bonds dated August, 1981; due in annual installments of \$2,000 - \$12,000 through August, 2021; interest at 5% (secured by levy and collection of ad valorem taxes).	\$ 175,000
--	------------

Utilities Revenue

\$142,000 Revenue bonds dated August, 1981; due in annual installments of \$2,000-\$8,000 through August, 2021; interest at 5%.	113,000
---	---------

\$700,000 Water Revenue bonds dated November, 1986; due in annual installments of \$2,000-\$59,000 through August, 2025; interest at 6.875%.	659,000
--	---------

\$340,000 Water Revenue bonds dated March, 1992; due in annual installments of \$23,100, including interest at 6.125%, through August, 2033.	328,711
--	---------

	<u>\$ 1,275,711</u>
--	---------------------

Certificates of Indebtedness

\$200,000 of Certificates of Indebtedness, dated February, 1997; due in annual installments of \$17,000-\$25,000 through December, 2006; interest at 5.50%.	<u>\$ 183,000</u>
---	-------------------

The loan agreements contain various restrictive covenants among which include maintenance of restricted cash funds at specified amounts, required amounts of insurance coverage and limitations on additional borrowings.

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Notes to Financial Statements
June 30, 1998

6. Changes in Long-Term Debt (Continued):

The annual requirements to amortize all debt outstanding as of June 30, 1998, including interest payments of \$1,743,123 are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation</u>	<u>Revenue Bonds</u>	<u>Certificates of Indebtedness</u>	<u>Total</u>
1999	\$ 12,750	\$ 84,056	\$ 25,625	\$ 122,431
2000	12,550	84,425	25,717	122,692
2001	12,350	83,725	25,755	121,830
2002	12,150	84,024	25,738	121,912
2003-2007	63,250	419,579	129,253	612,082
2008-2012	63,100	417,498	-	480,598
2013-2017	64,850	427,104	-	491,954
2018-2022	64,650	441,460	-	506,110
2023-2027	-	359,692	-	359,692
2028-2033	-	138,432	-	138,432
	<u>\$ 318,600</u>	<u>\$ 2,623,614</u>	<u>\$ 259,620</u>	<u>\$ 3,201,834</u>

7. Commitments and Contingencies:

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for all risks of loss, including workers' compensation and employee health and accident insurance. Settlements have not exceeded insurance coverage in any of the past three years.

During 1997, a suit was filed against the District by an employee alleging physical abuse and sexual harassment by their supervisor. There has been no activity since suit was filed. Management has indicated its plans to vigorously contest this suit and believes that the loss, if any, resulting from the suit will not have a material impact on the District's financial position, results of operations, or cash flows in future years. Since the ultimate resolution of this matter is not ascertainable at this time, no provision has been made in the financial statements related to this claim.

SUPPLEMENTAL INFORMATION

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Schedule of Board of Directors' Compensation and Expense Reimbursement
For the Year Ended June 30, 1998

Sharon Brock	\$ 1,680
Mary Collier	2,160
Velma Howard	1,920
Billie Roberts	1,200
Linda Strickland	1,020
Jewell Wagner	<u>2,340</u>
Total	<u>\$ 10,320</u>

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1998

We have audited the general purpose financial statements of Waterworks District No. 7, Caddo Parish, Louisiana as of and for the year ended June 30, 1998, and have issued our report thereon dated October 1, 1998. We conducted our 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. Our audit of the financial statements as of June 30, 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 No

Reportable Conditions Yes No

Compliance

Compliance Material to Financial Statements Yes No

b. Federal Awards - None awarded for year ended June 30, 1998.

c. Identification of Major Programs: N/A

Section II - Financial Statement Findings

98-1 Fidelity Bond Coverage

Statement of Condition: Insurance coverage by fidelity bond does not meet the debt covenant requirements of USDA Rural Development for the year ended June 30, 1998.

Criteria: The USDA Rural Development requires the minimum amount of insurance coverage by fidelity bond be \$150,000. For the year ended June 30, 1998, actual coverage was \$10,000 per employee, totaling \$30,000.

Effect of Condition: The actual fidelity bond coverage was less than required coverage by \$120,000, which is a violation of the debt covenant.

Cause of Condition: The District did not request fidelity bond insurance coverage in an amount that complies with debt covenant requirements.

Recommendation: The District should calculate the required amount of fidelity bond coverage mandated by the USDA Rural Development debt covenants and increase the bond to equal the calculated amount.

Response: We concur with auditor's recommendation's. Fidelity Bond Coverage will be increased to meet debt covenant requirements and procedures will be established to prevent reoccurrence of this situation.

**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 1998

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

The District resolved the prior year findings by performing the specific tasks that were outlined in the District's responses in the June 30, 1997 report with exception of the finding restated below:

97-3

Recommendation: The District should calculate the required amount of fidelity bond coverage mandated by the USDA Rural Development debt covenants and increase the bond to equal the calculated amount.

This finding remains unresolved as of June 30, 1998. Refer to current year finding no. 98-1.

OTHER REPORTS



SMITH PUGH RABINOWITZ L.L.P. CERTIFIED PUBLIC ACCOUNTANTS

610 MARSHALL STREET SUITE 800 • SHREVEPORT, LOUISIANA • 71101-5332 • TELEPHONE 318 222 5701 • FAX 318 424 4736
401 HAMILTON ROAD SUITE 112 • BOSSIER CITY, LOUISIANA 71111 • TELEPHONE 318 742 4935 • FAX 318 742 4989

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

The Board of Commissioners
Waterworks District No. 7
Caddo Parish, Louisiana

We have audited the general purpose financial statements of Waterworks District No. 7, Caddo Parish, Louisiana, a component unit of the Parish of Caddo, State of Louisiana, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 1, 1998. We conducted our 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 Waterworks District No. 7, Caddo Parish, Louisiana's general purpose 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 98-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waterworks District No. 7, Caddo Parish, Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Smith Pugh Rabinowitz LLP
Certified Public Accountants
Shreveport, Louisiana

October 1, 1998