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**GRAVITY DRAINAGE DISTRICT NO. 4  
OF CALCASIEU PARISH  
CALCASIEU PARISH POLICE JURY  
COMPONENT UNIT FINANCIAL REPORT  
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 8-04-99

GRAVITY DRAINAGE DISTRICT NO. 4  
OF CALCASIEU PARISH  
Lake Charles, Louisiana

FINANCIAL REPORT  
December 31, 1998

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GRAVITY DRAINAGE DISTRICT NO. 4  
OF CALCASIEU PARISH

December 31, 1998

COMMISSIONERS

Denise Foster - President  
Jack Chelette - Vice President  
Ernest Walker - Secretary Treasurer  
Patrick Hay - Board Member  
Lowell Guillory - Board Member

LEGAL COUNSEL

Rick Bryant - District Attorney

# McELROY, QUIRK & BURCH

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Tina L. Demarest, CPA, CVA



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Robert E. Cargile, CPA  
William A. Mancuso, CPA

Charles L. McElroy, CPA (1917-1997)  
Patrick J. Reddin, CPA (1926-1995)  
Frank D. Burch, CPA (1921-1991)

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Gravity Drainage District No. 4  
of Calcasieu Parish  
Calcasieu Parish Police Jury  
Lake Charles, Louisiana

We have audited the accompanying general purpose financial statements of Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana, a component unit of the Calcasieu Parish Police Jury, as of December 31, 1998, and for the year then ended. These general purpose financial statements are the responsibility of Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana, management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana has included such disclosures in Note 12. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana's disclosures with respect to the year 2000 issue made in Note 12. Further, we do not provide assurance that Gravity Drainage District No. 4 of

Calcasieu Parish, Louisiana is or will be year 2000 ready, that Gravity Drainage District No. 4's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana, as of December 31, 1998 and 1997, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The financial information for the preceding year, which is included for comparative purposes, was taken from the financial report for that year in which we expressed an unqualified opinion on the general purpose financial statements for Gravity Drainage District No. 4.

In accordance with Government Auditing Standards, we have also issued our report dated May 20, 1999 on our consideration of the Gravity Drainage District No. 4 of Calcasieu Parish's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

*McElroy, Quinn & Burch*

Lake Charles, Louisiana  
May 20, 1999

Totals (Memorandum Only)	
<u>1998</u>	<u>1997</u>
\$ 3,436,431	\$ 4,514,194
1,500,100	-
1,520,259	1,541,691
145,299	64,113
<u>9,829,168</u>	<u>9,129,315</u>
<u>\$ 16,431,257</u>	<u>\$ 15,249,313</u>

\$ 26,816	\$ 25,020
27,027	149,089
25,644	22,859
<u>26,810</u>	<u>26,810</u>
<u>106,297</u>	<u>223,778</u>

9,612,568	8,912,715
216,600	216,600
<u>6,495,792</u>	<u>5,896,220</u>
<u>16,324,960</u>	<u>15,025,535</u>
<u>\$ 16,431,257</u>	<u>\$ 15,249,313</u>

GRAVITY DRAINAGE DISTRICT NO. 4  
OF CALCASIEU PARISH

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND TYPE - SPECIAL REVENUE FUND  
Years Ended December 31, 1998 and 1997

	<u>Special Revenue Fund</u>	
	<u>1998</u>	<u>1997</u>
Revenues:		
Ad valorem taxes	\$ 1,586,290	\$ 1,587,558
State grants - DOTD	96,439	95,848
Local grants:		
City of Lake Charles	30,059	-
Calcasieu Parish Police Jury	182,450	41,098
State revenue sharing	80,428	80,428
Interest	261,638	228,866
Miscellaneous	17,906	12,332
Total revenues	<u>2,255,210</u>	<u>2,046,130</u>
Expenditures:		
Public works:		
Drainage and flood control:		
Salaries and benefits	468,821	452,408
Per diem (Board of Commissioners)	15,745	16,200
Operating services	303,716	316,774
Materials and supplies	136,779	57,391
Major repairs	-	18,710
Intergovernmental charges	52,003	51,287
Capital outlay	678,574	236,854
Total expenditures	<u>1,655,638</u>	<u>1,149,624</u>
Excess of revenues over expenditures	599,572	896,506
Fund balance at beginning of year	<u>5,896,220</u>	<u>4,999,714</u>
Fund balance at end of year	<u>\$ 6,495,792</u>	<u>\$ 5,896,220</u>

See Notes to Financial Statements.

GRAVITY DRAINAGE DISTRICT NO. 4  
OF CALCASIEU PARISH  
SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES (NON-GAAP BUDGETARY BASIS) - BUDGET AND ACTUAL  
Year Ended December 31, 1998  
With Comparative Actual Amounts for Year Ended December 31, 1997

	<u>1998</u>		Variance	<u>1997</u>
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)	<u>Actual</u>
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,571,000	\$ 1,624,748	\$ 53,748	\$ 1,570,622
State grants-DOTD	69,000	47,914	(21,086)	91,015
Local grants:				
City of Lake Charles	-	27,224	27,224	-
Calcasieu Parish Police Jury	49,600	84,599	34,999	49,844
State revenue sharing	107,000	80,428	(26,572)	107,237
Interest	160,000	261,638	101,638	228,866
Miscellaneous	<u>12,400</u>	<u>17,906</u>	<u>5,506</u>	<u>12,332</u>
Total revenues	<u>1,969,000</u>	<u>2,144,457</u>	<u>175,457</u>	<u>2,059,916</u>
<b>Expenditures:</b>				
Salaries and benefits	451,500	480,766	(29,266)	449,888
Per diem	16,200	15,577	623	16,200
Operating services	317,800	285,664	32,136	344,210
Materials and supplies	56,100	142,235	(86,135)	55,971
Major repairs	18,800	4,668	14,132	18,710
Capital outlay:				
Acquisition of land	-	579	(579)	2,000
Acquisition of equipment	4,300	4,300	-	6,548
Acquisition of vehicles	92,600	23,357	69,243	43,582
Construction	961,300	767,420	193,880	324,953
Intergovernmental:				
Intergovernmental service charges	<u>50,400</u>	<u>52,003</u>	<u>(1,603)</u>	<u>51,300</u>
Total expenditures	<u>1,969,000</u>	<u>1,776,569</u>	<u>192,431</u>	<u>1,313,362</u>
<b>Excess (deficiency) of revenues over expenditures- budget basis</b>				
	<u>\$ -</u>	<u>367,888</u>	<u>\$ 367,888</u>	<u>746,554</u>

(continued on next page)



GRAVITY DRAINAGE DISTRICT NO. 4  
OF CALCASIEU PARISH  
SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES (NON-GAAP BUDGETARY BASIS) - BUDGET AND ACTUAL  
Year Ended December 31, 1998  
With Comparative Actual Amounts for Year Ended December 31, 1997  
(Continued)

	1998		Variance	1997
	Budget	Actual	Favorable (Unfavorable)	Actual
Excess (deficiency) of revenues over expenditures- budget basis	<u>\$ -</u>	367,888	<u>\$ 367,888</u>	746,554
Adjustments to convert to GAAP basis:				
To adjust revenues for accruals		110,754		(13,786)
To adjust expenditures for accruals		120,930		163,738
Excess (deficiency) of revenues over expenditures- GAAP basis		599,572		896,506
Fund balance at beginning of year		5,896,220		4,999,714
Fund balance at end of year		\$ 6,495,792		\$ 5,896,220

See Notes to Financial Statements.

GRAVITY DRAINAGE DISTRICT NO. 4  
OF CALCASIEU PARISH

NOTES TO FINANCIAL STATEMENTS

1. Nature of Business

Gravity Drainage District No. 4 is a component unit of the Calcasieu Parish Police Jury responsible for maintenance of certain natural drainage laterals located in Ward 3, Calcasieu Parish.

2. Summary of Significant Accounting Policies

The accounting policies of Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana, conform to generally accepted accounting principles as applicable to governmental units. 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*, and to the industry audit guide, *Audits of State and Local Governmental Units*. The following is a summary of the more significant policies:

A. Financial Reporting Entity

The accompanying financial statements include the various activities that are within the control and authority of the Board of Commissioners of the Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Statement No. 14 of the Governmental Accounting Standards Board. This statement defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based on the foregoing criteria, the Gravity Drainage District No. 4 is a component unit of the Calcasieu Parish Police Jury and has no other fiscal or significant managerial responsibility over any other governmental unit that is not included in the financial statements of the Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana.

## NOTES TO FINANCIAL STATEMENTS

### B. Fund Accounting

The accounts of the Gravity Drainage District No. 4 of Calcasieu Parish are organized on the basis of funds and account group, 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. Revenues are accounted for in these individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds presented in the financial statements are described as follows:

#### GOVERNMENTAL FUNDS

Special Revenue Fund - Special Revenue Funds are used to account for all specific revenue sources that are legally restricted to expenditures for specified purposes.

#### GENERAL FIXED ASSETS

Account groups are used to establish accounting control and accountability for the District's general fixed assets and general long-term debt. The following is the District's account group:

General Fixed Assets Account Group - Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds.

### C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The governmental fund is maintained on the modified accrual basis of accounting, utilizing the following practices in recording revenues and expenditures.

## NOTES TO FINANCIAL STATEMENTS

Revenues - The governmental fund type uses a current financial resources measurement focus and is accounted for using the modified accrual basis of accounting. The revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Those revenues susceptible to accrual are property taxes, intergovernmental, and interest revenue. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Expenditures - Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

The preparation of financial statements in conformity with generally accepted accounting principles 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### D. Budgets and Budgetary Accounting

Annually, the District adopts a revenue and expenditure budget for the general fund. A forecast of revenues and expenditures is made based upon the prior year's expenditures and taking into consideration additional expenditures which can be predetermined and estimated. All budgetary appropriations lapse at the end of each fiscal year.

The budget is adopted on a cash basis method of accounting. Budgetary comparisons presented in this report are on this non-GAAP budgetary basis. Budget amounts are as originally adopted.

Encumbrance accounting is not used.

## NOTES TO FINANCIAL STATEMENTS

### E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and U.S. Government Agencies securities.

Louisiana state statutes, as stipulated in R.S. 39:1271, authorize the District to invest in United States bonds, treasury notes, or certificates, or time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana. The state statutes also authorize the District to invest in any other federally insured investment, or in 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. Investing is performed in accordance with investment policies complying with State Statutes and those adopted by the Board of Commissioners.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the District has stated their investments at fair value at December 31, 1998. Fair value was determined by obtaining "quoted" year end market prices. Cash and cash equivalents, which include cash, demand deposits, and U.S. Government agencies having an original maturity of three months or less from the date acquired are stated at amortized cost at December 31, 1998 and 1997, which approximates fair value.

### F. Vacation and Sick Leave

Substantially all employees earn five to twenty days of vacation leave each year depending on length of service with the Drainage District. Generally, vacation leave cannot be accumulated. However, vacation leave is allowed to be carried forward for the Superintendent, the Assistant Superintendent and the Office Manager.

All Drainage District employees earn twelve and one-half hours of sick leave per month. Sick leave can be accumulated without limitation. Upon retirement, all unused sick leave is used in the retirement benefit computation as earned service.

## NOTES TO FINANCIAL STATEMENTS

Upon resignation, unused sick leave is forfeited and unused vacation leave must be taken and may not be settled in cash. The amount of unused sick leave was \$96,842 and \$83,635 at December 31, 1998 and 1997, respectively. Because these liabilities will not be settled in cash, they are not included in the financial statements.

### G. Total Columns on Combined Statements-Overview

Total columns on the combined statements-overview are captioned Memorandum Only to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

### H. Ad Valorem Taxes and State Revenue Sharing

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by Calcasieu Parish around October and are actually billed to the taxpayers in November. Billed taxes become delinquent on December 31.

The parish bills and collects its property taxes using the assessed values determined by the Calcasieu Parish Tax Assessor.

Generally accepted accounting principles for government prescribe a modified accrual basis to be applied to property tax revenues. An assessment is made to finance the budget of a particular period and the revenue produced from any property tax assessment should be recognized in the fiscal period for which it was provided (budgeted) and for which the collections are reasonably available. Expected collections and collections of the 1998 levy are accrued as receivable and as revenue in the current year (1998). For budget purposes, this 1998 levy of property tax revenue is designated as revenue appropriable in the 1999 budget year.

NOTES TO FINANCIAL STATEMENTS

3. Cash, Cash Equivalents and Investments

Cash and certificates of deposit of the District are classified into three categories to give an indication of the level of risk assumed at year end. Category 1 represents those deposits insured (inclusive of FDIC) or collateralized with securities held by the District or its agent in the District's name. Category 2 represents deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Category 3 represents deposits uncollateralized including any securities held for the entity but not in the District's name.

The Gravity Drainage District No. 4 maintains demand (cash) and time deposits (certificates of deposit) through local depository banks which are members of the Federal Reserve System. In accordance with an agreement with the Calcasieu Parish Police Jury, which is approved by the Board, certain funds are invested and managed by that agency.

Deposits in excess of federally insured amounts are required by Louisiana state statute to be protected by collateral of equal market value. Authorized collateral includes general obligations of the U.S. Government, obligations issued or guaranteed by an agency established by the U.S. Government, general obligation bonds of any state of the U.S., or of any Louisiana parish, municipality or school district.

The District's bank demand and time deposits at year end were entirely covered by federal depository insurance or by pledge of securities owned by the financial institution in the District's name.

Balances at December 31, 1998 were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits-interest bearing (category 1)	\$ 100,000	\$ 100,000
Demand deposits-interest bearing (category 2)	175,431	181,106
Time deposits-interest bearing (category 2)	<u>-</u>	<u>-</u>
Total	<u>\$ 275,431</u>	<u>\$ 281,106</u>

NOTES TO FINANCIAL STATEMENTS

Balances at December 31, 1997 were as follows:

	Carrying Amount	Bank Balance
Demand deposits-interest bearing (category 1)	\$ 200,000	\$ 200,000
Demand deposits-interest bearing (category 2)	1,093,087	1,097,461
Time deposits-interest bearing (category 2)	3,221,107	3,221,107
Total	\$ 4,514,194	\$ 4,518,568

Following are investments of the District at year end categorized to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered, or for which the securities are held by the District or its agent in the name of the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the name of the District. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution, or by its trust department or agent but not in the name of the District.

	Category			Reported Amount- Fair Value
December 31, 1998	1	2	3	
U.S. Government Agency- cash equivalents	\$ 3,161,000	\$ -	\$ -	\$ 3,161,000
U.S. Government Agencies securities	1,500,100	-	-	1,500,100
	\$ 4,661,100	\$ -	\$ -	\$ 4,661,100

4. General Fixed Assets

A summary of changes in general fixed assets follows:

	Balance 1/1/98	Additions	Deletions	Balance 12/31/98
Land	\$ 174,786	\$ 579	\$ -	\$ 175,365
Building and plant	7,332,375	671,617	-	8,003,992
Light equipment	85,535	27,657	-	113,192
Heavy equipment	1,301,171	-	-	1,301,171
Furniture and fixtures	18,848	-	-	18,848
Contributed capital- heavy equipment	216,600	-	-	216,600
	\$ 9,129,315	\$ 699,853	\$ -	\$ 9,829,168



## NOTES TO FINANCIAL STATEMENTS

### 5. Retirement Benefits

#### Defined benefit pension plan:

##### Plan description:

Substantially all employees are members of the Parochial Employees' Retirement System of Louisiana. Act 205 of 1952 established this retirement system, effective January 1, 1953. A comprehensive revision of the Parochial Employees' Retirement System law became effective January 1, 1980. This retirement system is operated by a Board of Trustees, an Administrative Director, an Actuary and a Legal Advisor.

All permanent employees of the District who work at least 28 hours a week shall become members on the date of employment. Members become entitled to receive retirement benefits after 10 years of creditable service. Eligibility to actually begin receiving benefits is a function of fulfilling the eligibility provisions of age and service.

Members with 10 years of creditable service may retire at age sixty; members with 25 years of service may retire at age fifty-five; members with 30 years of service may retire regardless of age. The retirement allowance is equal to three percent of the member's final average compensation (defined as the average of the highest consecutive 36 months) multiplied by his years of creditable service.

Act 338 of 1990 established the Deferred Retirement Option Plan (DROP) for this retirement system. DROP is an option for those members who have been eligible for normal retirement for one year. The plan allows the pension benefit that is accrued at that point in time to be calculated and to accumulate with the retirement system while the DROP participant continues to work, freezing the future retirement benefit at retirement.

##### Funding policy:

The system is funded primarily by employer and employee contributions which are expressed as percentages of payroll. The amount of employee contributions is fixed by law. Covered employees were required by Louisiana state statute to contribute 9.5% of their salary to the plan. The District was required by the same statute to contribute 7.75% of eligible salaries. In addition, each sheriff and ex officio tax collector deducts one-fourth of one percent of the aggregate amount of the tax shown

NOTES TO FINANCIAL STATEMENTS

to be collected by the tax roll of each respective parish (excepting Orleans and East Baton Rouge Parish) and remits the money to the system on an annual basis. The cost of operating the system is funded by a portion of the contribution.

The District's contributions to the Parochial Employees' Retirement System of Louisiana for each of the years ending December 31, 1998, 1997 and 1996 are presented below. These contributions are equal to the required contributions for each year.

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Employer's contribution	\$ 27,604	\$ 25,603	\$ 23,009
Employees' contribution	<u>33,988</u>	<u>32,603</u>	<u>30,149</u>
	<u>\$ 61,592</u>	<u>\$ 58,206</u>	<u>\$ 53,158</u>

The Drainage District does not guarantee any benefits granted by the retirement system.

6. Bad Debts

Uncollectible amounts due for ad valorem taxes are recognized as bad debts at the time information becomes available which would indicate the uncollectibility of the particular receivable. Tax revenue is shown net of estimated uncollectible taxes of \$16,277.

7. Contracts Payable

This represents the amount due to contractors relating to the following construction projects:

Woodring Street projects	\$ 8,507
Kayouche Coulee project	<u>18,520</u>
	<u>\$ 27,027</u>

NOTES TO FINANCIAL STATEMENTS

8. Unreserved Fund Balance Designation

The Board of Commissioners continue their policy of designating fund balance to provide a contingency reserve of resources to respond to major equipment overhaul and replacement needs. The various pump systems of the District (with unit replacements ranging from \$100,000 to \$2,000,000 per pump and possibly involving critically short turnaround times) comprise the major objectives of this contingency designation. Total designations at December 31, 1998 are as follows:

Commitments on construction contracts	\$ 485,703
Property tax revenue designated for subsequent year	1,610,226
Major equipment overhaul and replacement needs	<u>4,399,863</u>
	<u>\$ 6,495,792</u>

9. Commitments and contingencies

The District is contractually liable to local contractors in the amount of \$485,703 for construction work to be performed which pertains to construction projects. These obligations will be funded partially by the Calcasieu Parish Police Jury in the estimated amount of \$247,170. The District will ultimately pay approximately \$238,533 as its share of the contracts.

The Calcasieu Parish School System Sales and Use Tax Department has assessed sales taxes due on purchases of tangible goods by a contractor which goods were consumed in the course of or incorporated into a public works project of the District. Both Gravity Drainage District No. 4 and the contractor take the position that as to the purchase of tangible goods which were consumed in the course of or incorporated in the project, the contractor was acting as agent for the District such that sales taxes are not due. The Calcasieu Parish School System Sales and Use Tax Department has taken the position that there was no agency relationship between the District and the contractor and therefore sales taxes are due. Total sales tax assessed and possible interest and penalties aggregate approximately \$100,000. The ultimate outcome of this issue has not been determined.

10. Budget - GAAP Reporting Reconciliation

The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP Budgetary Basis) and Actual for the special revenue fund, presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis (cash basis of accounting) differ significantly from those used to present financial

NOTES TO FINANCIAL STATEMENTS

statements in conformity with GAAP, a reconciliation of resultant basic, timing, perspective, and entity differences in the excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended December 31, 1998 is presented on that budgetary comparison statement.

11. Schedule of Commissioners' Compensation

Commissioner:	
Jack Chelette	\$ 3,120
Denise Foster	3,120
Patrick Hay	3,120
Abraham Simien	1,040
Ernest Walker	3,720
Lowell Guillory	<u>1,625</u>
Total	<u>\$ 15,745</u>

Commissioners are compensated at the rate of \$260 per month with the secretary-treasurer, Ernest Walker, receiving an additional \$50 monthly.

12. Year 2000 Issues (Unaudited)

The District is in the process of addressing all significant year 2000 issues, including its business systems, processes and essential equipment. The overall costs to prepare the District for the year 2000 are not considered material to the District's financial position or results of operations.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Gravity Drainage District No. 4  
of Calcasieu Parish  
Lake Charles, Louisiana

We have audited the general purpose financial statements of the Gravity Drainage District No. 4 of Calcasieu Parish, Louisiana (District), a component unit of the Calcasieu Parish Police Jury, as of and for the year ended December 31, 1998, and have issued our report thereon dated May 20, 1999.

### Compliance

As part of obtaining reasonable assurance about whether the District's 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 the following instance of noncompliance that is required to be reported herein under *Government Auditing Standards* for which the ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in the Gravity Drainage District No. 4 of Calcasieu Parish's 1998 financial statements.

The District failed to comply with LA Revised Statute 39:1310 which requires budget amendments when total actual revenues and other sources exceed or fail to meet total budgeted revenues and other sources by five percent or more. For the year ended December 31, 1998, Special Revenue Fund revenues exceeded budgeted revenues by 8.91%. LA Revised Statute 39:1310 also requires budget amendments when total actual expenditures and other uses exceed or fail to meet total budget expenditures and other uses by five percent or more. For the year ended December 31, 1998, Special Revenue Fund expenditures failed to meet budgeted expenditures by 9.77%.

## 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 financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters, as described below, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

### **Segregation of Duties**

Because of the entity's size and the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control. Effective internal control requires adequate segregation of duties among the entity's personnel. Without proper segregation of duties, errors within the financial records or fraud could go undetected.

To the extent cost effective, duties should be segregated and management should attempt to mitigate this weakness by supervision and review procedures.

The reportable condition related to segregation of duties was also reported as a result of the prior year's audit.

### **Management's responses:**

Management has responded that it does not believe that it is cost effective to employ adequate personnel to achieve an adequate level of segregation of responsibilities. Management has implemented supervision and review procedures such as review and approval of supporting documents related to expenditures and periodic review of bank reconciliations.

### **Controls Over Compliance**

For the year ended December 31, 1998, Special Revenue Fund actual revenues exceeded budget revenues by 8.91%. The Special Revenue Fund actual expenditures failed to meet total budget expenditures by 9.77%. LA Revised Statute 39:1310 requires budget amendments when total actual revenues and other sources or expenditures and other uses exceed or fail to meet total budget revenues and other sources or expenditures and other uses by five percent or more.

We recommend budget to actual comparisons be monitored monthly and the Board amend the budget at the time the actual and projected revenues and/or expenditures reach a variance of more than 5% of the budget amounts.

**Management's response:**

The budget to actual comparisons will be more carefully monitored and appropriate steps will be taken to comply with LA Revised Statute 39:310.

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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we considered the reportable conditions reported above to be material weaknesses.

We present the following follow-up comments concerning the matters reported in our prior year's report on internal control over financial reporting:

**Prior Year Audit Findings**

**Reportable conditions:**

Inadequate segregation of duties. This matter has been discussed above.

Bank reconciliations were not prepared on a timely basis during 1997. During 1998, the Board worked to correct this problem. A replacement bookkeeper/office manager was hired and training was provided to that person concerning policies and procedures relating to the accounting records. Periodic review of bank reconciliations were performed during 1998. We noted significant improvements in this area during 1998.

Construction project files were not adequately documented to track progress of the various projects during 1997. Such files should include all data and agreements necessary to support and track the project. We noted improvements in this area during 1998; however, the procedures to track the costs and related grant revenue should be more structured. Management has indicated procedures will be implemented to improve the tracking of construction cost and related grant revenue.

Additional comments:

We recommend the District take necessary actions to identify, modify, and test all systems that may be negatively affected by the Year 2000 Issue. Management responded that their accounting program has adequately addressed this issue and other Year 2000 Issues are in the process of being addressed.

This report is intended for the information of management and other state and Parish audit agencies. However, this report is a matter of public record, and its distribution is not limited.

*McCray, Quirk & Burch*

Lake Charles, Louisiana  
May 20, 1999