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CADDO SEWERAGE DISTRICT NO. 7

SHREVEPORT, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 1998 AND 1997

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 MAY 26 1999

CADDO SEWERAGE DISTRICT NO. 7

SHREVEPORT, LOUISIANA

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Independent Auditor's Report

The Board of Commissioners
Caddo Sewerage District No. 7
Shreveport, Louisiana

I have audited the accompanying financial statements of Caddo Sewerage District No. 7, a component of Caddo Parish, Louisiana, as of and for the years ended December 31, 1998 and 1997, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits 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. I believe that my audit provides a reasonable basis for my opinion.

As disclosed in Note 1, the financial statements present only Caddo Sewerage District No. 7 and are not intended to present fairly the financial position of Caddo Parish, State of Louisiana, and the results of its operations and cash flows of its proprietary fund types and non-expendable trust funds in conformity with generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caddo Parish Sewerage District No. 7 as of December 31, 1998 and 1997, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 4, 1999 on my consideration of Caddo Sewerage District No. 7 internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not required part of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The year 2000 supplementary information on page 28 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and do not express an opinion on it. In addition, I do not provide assurance that Caddo Sewerage District No. 7 is or will become year 2000 compliant, that Caddo Sewerage District No. 7's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Caddo Sewerage District No. 7 does business are or will become year 2000 compliant.



Richard C McCallister
May 4, 1999

CADDO SEWERAGE DISTRICT NO. 7
BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

<u>ASSETS</u>	<u>1998</u>	<u>1997</u>
<u>Current assets</u>		
Cash - unrestricted	153,627	125,080
Accounts receivable - Note 4	49,160	49,354
Prepaid expenses	5,515	5,515
	<hr/>	<hr/>
Total current assets	208,302	179,949
<u>Restricted assets</u>		
Cash		
Revenue Sinking Fund	26,804	20,351
Reserve Sinking Fund	172,748	155,157
Depreciation and Contingency Fund	164,884	147,649
Construction Fund	71,980	47,721
Customer deposits and permits	3,654	3,051
Ad Valorem Tax Collections - Note 5	38,366	82,777
DOTD Sinking Fund - Note 11	88,729	72,865
Certificate of Deposit - customer deposits	64,100	64,100
Accounts receivable - Ad valorem - Note 5	55,053	69,657
	<hr/>	<hr/>
Total restricted assets	686,318	663,328
<u>Property, plant and equipment, at cost - Note 6</u>		
Machinery and equipment	28,125	21,738
Sewer system	4,697,025	4,665,672
Land	37,500	35,000
Construction in progress	15,000	15,000
	<hr/>	<hr/>
	4,777,650	4,737,410
Less: accumulated depreciation	1,394,817	1,246,587
	<hr/>	<hr/>
Total property, plant and equipment	3,382,833	3,490,823
<u>Other assets</u>		
Deferred finance charge -Note 7	78,538	77,942
	<hr/>	<hr/>
Total assets	4,355,991	4,412,042

The accompanying notes are an integral part of these financial statements.

LIABILITIES & FUND EQUITY

	<u>1998</u>	<u>1997</u>
<u>Current liabilities (payable from current assets)</u>		
Accounts payable	15,610	9,185
Total	<u>15,610</u>	<u>9,185</u>
<u>Current liabilities (payable from restricted assets)</u>		
Accrued interest - revenue bonds	23,194	23,226
Revenue bonds payable	42,729	40,871
Customer deposits and permits held	67,754	67,151
Accrued interest - general obligation bonds	9,435	12,645
General obligation bonds payable	25,000	25,000
Deduction from taxes - assessor	1,581	2,002
Total	<u>169,693</u>	<u>170,895</u>
Total current liabilities	<u>185,303</u>	<u>180,080</u>
<u>Long-term liabilities</u>		
Revenue bonds payable - Note 8	2,278,590	2,326,366
General obligation bonds payable - Note 8	527,000	600,000
Loans payable - Louisiana DOTD - Note 11	134,892	134,892
Total long-term liabilities	<u>2,940,482</u>	<u>3,061,258</u>
Total liabilities	<u>3,125,785</u>	<u>3,241,338</u>
<u>Fund equity</u>		
Contributed capital		
Federal EPA contribution	33,635	35,237
Louisiana grant	686,568	711,836
Total contributed capital	<u>720,203</u>	<u>747,073</u>
Retained earnings		
Reserved for general obligation bond retirement	58,984	112,787
Reserved for revenue bond current debt service	(39,119)	(43,746)
Reserved for revenue bond future debt service	172,748	155,157
Reserved for revenue bond debt service contingency	164,884	147,649
Unreserved retained earnings	152,506	51,784
Total retained earnings	<u>510,003</u>	<u>423,631</u>
Total fund equity	<u>1,230,206</u>	<u>1,170,704</u>
Total liabilities and equity	<u>4,355,991</u>	<u>4,412,042</u>

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF REVENUE, EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<u>Operating revenues</u>		
Fees and charges for services	535,462	526,873
<u>Operating expenses</u>		
Personal services	67,300	61,144
Advertising, dues and subscriptions	952	418
Printing	1,017	1,310
Utilities	19,449	19,702
Communications	6,787	6,407
Rentals paid	5,360	4,800
Maintenance of property and equipment	78,016	72,462
Professional services	16,801	17,568
Insurance and surety bonds	15,107	13,618
Office expenses	4,315	5,005
Travel	5,890	5,923
Bad debts	1,692	143
Depreciation	148,613	141,569
Total operating expenses	371,299	350,069
<u>Operating income</u>	164,163	176,804
<u>Non-operating revenue (expense)</u>		
Interest income	29,186	19,125
Ad valorem taxes	54,747	71,391
Tax assessor charges	(1,581)	(2,002)
Interest and fiscal charges	(187,013)	(201,723)
Total non-operating revenue (expense)	104,661	(113,209)
Net income	59,502	63,595
Add depreciation on fixed assets acquired by grants externally restricted for capital acquisitions and construction that reduces contributed capital	26,870	26,870
Increase in retained earnings	86,372	90,465
Retained earnings - beginning	423,631	333,166
Retained earnings - ending	510,003	423,631

The accompanying notes are an integral part of these financial statements.

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>1998</u>	<u>1997</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	533,964	526,057
Cash payments to suppliers for goods and services	(148,083)	(134,601)
Cash payments for personal services	(66,372)	(61,596)
	<u>319,509</u>	<u>329,860</u>
<u>Cash flows from non-capital financing activities</u>		
Deposits received from customers	603	2,320
	<u>603</u>	<u>2,320</u>
<u>Cash flows from capital and related financing activities</u>		
Proceeds from ad valorem tax collections	67,349	71,715
Acquisition and construction of capital assets	(40,738)	(68,834)
Principal paid on revenue bonds	(45,918)	(53,370)
Interest paid on revenue bonds	(150,007)	(154,897)
Principal paid on general obligation bonds	(73,000)	(20,000)
Interest paid on general obligation bonds	(35,923)	(42,401)
Bond refunding costs paid	(4,920)	
	<u>(283,157)</u>	<u>(267,787)</u>
<u>Cash flows from investing activities</u>		
Interest on investments	29,186	19,125
	<u>66,141</u>	<u>83,518</u>
Net increase (decrease) cash and cash equivalents	66,141	83,518
Cash and cash equivalents at beginning of year	<u>718,751</u>	<u>635,233</u>
Cash and cash equivalents at end of year - Note 1	<u>784,892</u>	<u>718,751</u>

The accompanying notes are an integral part of these financial statements.

CADDO SEWERAGE DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

1. Summary of significant accounting policies

The following is a summary of the significant accounting policies of the District:

- a. Caddo Sewerage District No. 7 is a governmental subdivision of the Caddo Parish Commission. This report includes all funds controlled by Caddo Sewerage District No. 7. The District is considered a component unit of the Caddo Parish Commission, and will be included in the Commission's financial report for 1998. The District was formed to construct and operate a sewerage collection and treatment system North of Shreveport, Louisiana. The District serves approximately 1,500 customers and has one full-time employee. Its five board members are appointed by the Caddo Parish Commission and are compensated \$60 each per meeting attended. It is accounted for as an enterprise fund as the project is substantially financed through user fees. The District uses the accrual basis of accounting where revenues are recognized when earned and become measurable. Expenses are recognized when incurred.
- b. Cash and cash equivalents consist of all cash accounts identified as "Cash" under the classifications of current assets and restricted assets. All of these accounts qualify as cash or cash equivalents.
- c. Provisions for bad debts on receivables are provided currently, and identified bad debts are written off against the balances provided.
- d. Property, plant, and equipment are stated at cost. Depreciation is provided on assets in service using the straight-line method over their useful lives.

All costs associated with the construction of the system additions, including interest and financing costs, are capitalized. Financing costs associated with refunding bond issues are capitalized and amortized over the term of the bond issue.

Depreciation recognized on assets acquired with contributed capital is closed to the appropriate contributed capital account.

- e. All highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less are considered to be cash equivalents for the purposes of the statement of cash flows.
- f. Income taxes are not provided as the District is exempt from taxes being a governmental unit.
- g. The District has adopted a leave policy only as to vacation. The policy provides for accumulation and vesting of leave; however, no provision is made for accumulation and vesting of leave due to its small amount.
- h. Prepaid items are recorded on the books for those that benefit future periods.

2. Restricted accounts receipts and disbursements

	<u>Revenue Sinking</u>	<u>Reserve Sinking</u>	<u>Depr & Conting</u>	<u>Ad Valorem</u>	<u>Construct</u>	<u>DOTD</u>
Cash - January 1, 1998	20,351	155,157	147,649	82,777	47,721	72,865
Cash receipts:						
Transfer from operating account	202,054	9,912	9,912		24,000	12,000
Tax collections				67,596		
Interest on investments	1,011	7,679	7,323	1,762	2,864	3,864
Total cash receipts	203,065	17,591	17,235	69,358	26,864	15,864
Total cash available	223,416	172,748	164,884	152,135	74,585	88,729
Cash disbursements:						
Principal and interest	196,112			107,996		
Contractors, equipment and professionals				4,344	2,605	
Administrative	500			1,429		
Total cash disbursements	196,612			113,769	2,605	
Cash - December 31, 1998	26,804	172,748	164,884	38,366	71,980	88,729
Amounts required to be on deposit	23,868	154,760	164,445			
	<u>Revenue Sinking</u>	<u>Reserve Sinking</u>	<u>Depr & Conting</u>	<u>Ad Valorem</u>	<u>Construct</u>	<u>DOTD</u>
Cash - January 1, 1997	29,685	141,160	133,868	70,311	32,682	59,100
Cash receipts:						
Transfer from operating account	198,240	9,912	9,912		24,000	12,000
Receipt from DOTD						
Tax collections				71,551		
Interest on investments	1,103	4,085	3,881	2,930	1,133	1,778
Total cash receipts	199,343	13,997	13,793	74,481	25,133	13,778
Total cash available	229,028	155,157	147,661	144,792	57,815	72,878
Cash disbursements:						
Principal and interest	207,669			61,400		
Contractors, equipment and professionals					10,094	
Administrative	1,008		12	615		13
Total cash disbursements	208,677	0	12	62,015	10,094	13
Cash - December 31, 1997	20,351	155,157	147,649	82,777	47,721	72,865
Amounts required to be on deposit	24,165	145,030	147,392			

3. Collateralization of cash accounts

Cash deposits at Bank One are collateralized as follows at December 31, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Fair market value of securities pledged	210,682	660,000
Current FDIC coverage	<u>100,000</u>	<u>100,000</u>
Total collateral	310,682	760,000
Collected cash balances	<u>786,695</u>	<u>722,957</u>
Collateralization (shortage) excess	<u>(476,013)</u>	<u>37,043</u>

The uncollateralized balance of \$476,013 is not secured by the pledge of securities and is a violation of state law.

4. Accounts receivable

Accounts receivable customers at December 31, 1998 and 1997 consists of the following:

	<u>1998</u>	<u>1997</u>
Accounts receivable - customers	51,560	51,754
Allowance for bad debts	<u>(2,400)</u>	<u>(2,400)</u>
Total accounts receivable	<u>49,160</u>	<u>49,354</u>

5. Ad Valorem Taxes

An ad valorem tax is levied in October each year for the fiscal year and becomes delinquent after December of the same year. Taxes are collected by the Caddo Parish Sheriff's office and forwarded to the District after removal of tax assessor charges. Ad Valorem tax revenue is recognized when levied.

	<u>1998</u>	<u>1997</u>
Assessed valuation within District - net	4,034,040	3,956,650
Millage	<u>14.00</u>	<u>18.00</u>
Taxes levied	56,477	71,220
Less: Estimate of uncollectibles	1,424	1,424
Amounts already collected		139
Accounts receivable -- ad valorem	<u>55,053</u>	<u>69,657</u>

Ad Valorem taxes are assessed to retire the general obligation bonds of the District. The District has \$93,419 in net current assets at December 31, 1998 to cover \$36,016 in 1999 maturing principal and interest. Based on the current property valuation within the District, subsequent millage requirements should approximate fourteen.

6. Fixed assets

The District completed construction of its first phase of sewer system January 1, 1985 at a cost of \$1,687,856. The second phase was completed December 1, 1989, at a cost of \$1,845,274. Substantial additions were completed during 1995 at a cost of \$853,947. Constructed systems are being depreciated on a straight-line basis of 25 years.

7. Deferred finance charges

In conjunction with refunding bond issued, refinancing costs were incurred. These costs are amortized on a straight-line basis over the term of the new bond issues. Included in interest expense for the years ended December 31, 1998 and 1997, amortization of these costs were \$4,324 and \$4,139, respectively.

8. Changes in long-term debt

The following is a summary of bond transactions of the District for the years ending December 31, 1998 and 1997:

	<u>General Obligation</u>		<u>Revenue</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Bonds payable - beginning of year	625,000	645,000	2,367,237	2,420,607
Less bonds retired - net	<u>73,000</u>	<u>20,000</u>	<u>45,918</u>	<u>53,370</u>
Bonds payable - end of year	552,000	625,000	2,321,319	2,367,237
Less portion classified as current	<u>25,000</u>	<u>25,000</u>	<u>42,729</u>	<u>40,871</u>
Long-term portion	<u>527,000</u>	<u>600,000</u>	<u>2,278,590</u>	<u>2,326,366</u>

Bonds payable at December 31, 1998 and 1997 are comprised of the following individual issues:

	<u>1998</u>	<u>1997</u>
General obligation bonds serviced through		
Ad valorem tax collections:		
\$365,000 1983 bonds due in annual installments of principal and interest of approximately \$21,000 through 2023; interest at 5%	295,000	300,000
\$257,000 1998 refunding bonds due in annual installments of principal and interest of approximately \$33,300 through 2008; interest at 5%	257,000	
\$420,000 1988 bonds due in annual installments of principal and semi-annual installments of interest totaling approximately \$43,000 each year through 2008; interest is variable by year and averages 8% over the entire term		<u>325,000</u>
Total general obligation bonds	<u>552,000</u>	<u>625,000</u>
Revenue bonds		
\$520,000 1983 sewer revenue bonds due in annual installments of principal and interest of approximately \$30,000; through 2023; interest at 5%	430,000	438,000
\$1,315,000 1989 sewer revenue bonds due in annual installments of principal and interest of \$95,651 through 2028; interest at rates below:		
1989 6 ½%	928,205	947,251
1989A 7 ¾%	263,114	261,986
\$815,000 1991 sewer revenue refunding bonds due in annual installments of principal and interest of approximately \$70,000 through 2016; average interest at 7.1 %	<u>700,000</u>	<u>720,000</u>
Total revenue bonds	<u>2,321,319</u>	<u>2,367,237</u>

On April 1, 1998, the District issued \$257,000 of general obligation sewer refunding bonds. The proceeds were used to redeem \$305,000 of 1988 general obligation bonds. The cost of the issuance approximated \$6,000; however, the present value of the net savings was estimated to be \$39,000. An additional principal payment in the amount of \$50,000 was drawn from the Ad Valorem tax cash account in the refunding.

The annual requirements to amortize all bond debt outstanding at December 31, 1998, including interest payments of \$2,839,881 are as follows:

<u>Year ending December 31</u>	<u>Obligation</u>	<u>Revenue</u>	<u>Total</u>
1999	52,100	194,891	246,991
2000	49,875	193,121	242,996
2001	52,575	196,351	248,926
2002	51,175	195,251	246,426
2003	53,504	193,001	246,505
2004 – 2029	596,096	3,885,260	4,481,356
Total	855,325	4,857,875	5,713,200

9. Rate covenant-debt service charge

In accordance with the District's bond resolution authorizing the issuance of its refunding bonds, the District, through its Board of Commissioners, covenants to fix, establish and maintain such rates and collect such fees, rents or other charges for the services and facilities of the system, and all parts thereof, and to revise the same from time to time whenever necessary, and will always provide revenues in each year sufficient to pay the reasonable and necessary expenses of operating and maintaining the system in each year, the principal and interest maturing on the Bonds and the Parity Bonds in each year, all reserves or sinking funds or other payments required for such year by the Bond Resolution, and all other obligations or indebtedness payable out of the revenues of the system for such year, and which will provide revenues in each year after paying all reasonable and necessary expenses of operating and maintaining the system in such year, at least equal to 120% of the largest amount of principal and interest maturing in any future fiscal year on the Bonds and the Parity Bonds.

Debt service coverage for the year ended December 31, 1998 is calculated below:

Largest principal and interest maturing in any fiscal year	198,257
Rate coverage	<u>120%</u>
Required debt service coverage	<u>237,908</u>
Operating income	164,163
Add: Depreciation	148,613
Interest on revenue accounts	27,310
Less: Paying agent fees included in fiscal charges	<u>(1,000)</u>
Debt service coverage	<u>339,086</u>

10. Flow of funds; restrictions on use-sewer revenue

Under the terms of the bond indentures on outstanding Sewer Revenue Bonds, all income revenues (hereinafter referred to as revenue) of every nature, earned or derived from operation of the Utility System are pledged and dedicated to the retirement of said bonds, and are to be set aside into the following special funds:

Revenue is first deposited in Sewer Revenue Fund and shall first provide for the payment of the reasonable and necessary expenses of operating and maintaining the system.

Each month, there will be set aside into a fund called the "Bond and Interest Sinking Fund" an amount constituting 1/12 of the next maturing installment of principal and 1/12 of the next maturing installment of interest on the outstanding bonds. Such transfers shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments.

There shall also be set aside into a "Sewer Reserve Fund" an amount equal to 5% of the principal and interest payments required during the current fiscal year until there shall have been accumulated in the Reserve Account an amount equal to the maximum principal and interest requirements in any one maturity year.

Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Bond and Interest Sinking Fund and as to which there would otherwise be default.

Funds will also be set aside into a Depreciation and Contingency Fund an amount equal to 5% of the principal and interest payments required during each fiscal year. Money in the Fund may be used for the making of extraordinary repairs or replacements to the system which are necessary to keep the system in operating condition and for which money is not available as a maintenance in operation expense. Money in this fund may also be used to pay principal or interest on the bonds falling due at any time there is not sufficient money for payment in the other bond funds.

11. Loans payable - DOTD

The Louisiana Department of Transportation and Development (DOTD) has loaned the District \$134,892 pursuant to Act 319 of the Louisiana Legislature. The funds were used to relocate sewerage lines. The Act does not have any stated repayment terms or interest rates. DOTD can demand repayment when the District permits any additions in a state maintained highway right-of-way. A separate fund called "DOTD Sinking Fund" was started during 1991 for eventual repayment of this loan if necessary. The District plans to place \$1,000 per month in such fund. At December 31, 1998, the account balance was \$88,729.

12. Pension Plan

The District has adopted a Simplified Employee Pension Individual Retirement Accounts Contribution Agreement. The plan calls for discretionary contributions in each calendar year to the Individual Retirement Accounts of all eligible employees who are at least 21 years old and have 6 months service. Total payroll for the year ended December 31, 1998 was \$58,810 of which \$46,906 was covered by the plan. The policy of the District is to contribute to the plan a percentage of covered payroll equal to the employer's portion of taxes that would have been due under Social Security. Such percentage was 6.2% and contributions of \$2,908 were paid to the plan.

13. Payments to Commissioners

The following is a schedule of commissioners of the District and amounts paid them per diem for the year ended December 31, 1998:

<u>Commissioner</u>	<u>Per Diem</u>	<u>Term Expiration</u>
George Wilson	840	11-1-2000
Billy Dearing	540	11-1-2000
Calvin E Millender	840	11-1-1999
Catherine B Hall	780	11-1-1998
Kenneth W Fedd	840	11-1-2001
R D Van Aken	60	11-1-2001
Total	<u>3,900</u>	

14. Statement of cash flows

Reconciliation of operating income to net cash provided by operating activities:

	<u>1998</u>	<u>1997</u>
Operating income	164,163	176,804
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	148,613	141,569
Loss on sale	114	
Change in assets and liabilities:		
Accounts receivable	194	7,659
Prepaid expenses		(297)
Accounts payable	<u>6,425</u>	<u>4,125</u>
Net cash provided by operating activities	<u>319,509</u>	<u>329,860</u>

15. Risks of loss

Risks of loss are covered through the acquisition of commercial insurance. The District has incurred only small claims in the past for damages that were substantially covered by insurance.

Schedules of insurance coverage in effect at December 31, 1998 and 1997 are as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>	<u>Effective Dates</u>	<u>Effective Dates</u>
Scottsdale Ins.	Commercial Liability	600,000	7-98 / 7-99	7-97 / 7-98
State Farm	Fidelity Bond	500,000	4-98 / 4-99	5-97 / 5-98
Lloyds of London	Commercial Property	386,600	4-98 / 4-99	4-97 / 4-98
LA Work Comp	Workmens Comp	Statutory	2-98 / 2-99	2-97 / 2-98

16. Commitments and contingencies

In the event the District permits with the DOTD for any subsequent construction, loans totaling \$134,892 at December 31, 1997 become payable on demand by the DOTD. Funds set aside in the DOTD sinking fund in the amount totaling \$88,729 through December 31, 1998, have been provided for this contingency.

The District received its water discharge permit from the Louisiana Department of Environmental Quality (DEQ) effective June 24, 1994. The permit set effluent discharge limitations which the current system is unable to meet without modifications. A project will be required to be completed no later than June 25, 1999. The project's estimated cost is \$700,000. The Board likely will be required to request additional time to complete the project. Funding and final construction plans have not been completed. If additional time is not granted, the DEQ could impose substantial financial penalties on the District.

CADDO SEWERAGE DISTRICT NO. 7
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 1998

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements Expenditures</u>
U.S. Department of Agriculture Farmers Home Administration Loan Sewer Construction	10.760	N/A	0

Note to schedule

The U.S. Department of Agriculture is the registered owner of the following bond issues stated at the principal balances at December 31, 1998:

1983 General Obligation Bonds	295,000
1983 Sewer Revenue Bonds	430,000
1989 Sewer Revenue Bonds	928,205
1989A Sewer Revenue bonds	<u>263,114</u>
Total bonds	<u>1,916,319</u>

Richard C. McCallister
Certified Public Accountant

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

The Board of Directors
Caddo Sewerage District No. 7
Shreveport, Louisiana

I have audited the financial statements of Caddo Sewerage District No. 7, Shreveport, Louisiana, a component unit of Caddo Parish, Louisiana, as of and for the years ended December 31, 1998 and 1997 and have issued my report thereon dated May 4, 1999. I have conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

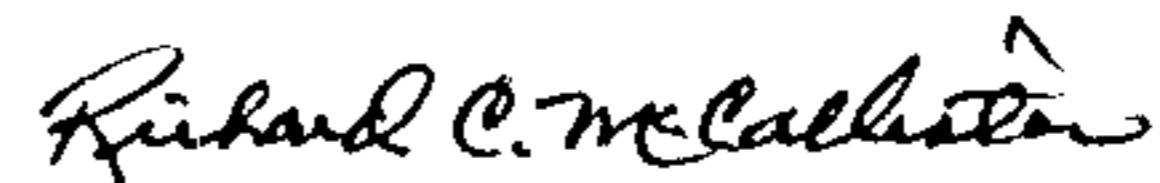
As part of obtaining reasonable assurance about whether Caddo Sewerage District No. 7 financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one 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 B-1.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Caddo Sewerage District No. 7 internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal

control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure over financial reporting and its operation that I consider to be a material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.



Richard C McCallister
Shreveport, Louisiana
May 4, 1999

Richard C. McCallister
Certified Public Accountant

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REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Caddo Sewerage District No. 7
Shreveport, LA

Compliance

I have audited the compliance of Caddo Sewerage District No. 7, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to each of its major federal programs for the years ended December 31, 1998 and 1997. Caddo Sewerage District No. 7 major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Caddo Sewerage District No. 7 management. My responsibility is to express an opinion on Caddo Sewerage District No. 7 compliance based on my audit.

I conducted my audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Caddo Sewerage District No. 7 compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion; my audit does not provide a legal determination on Caddo Sewerage District No. 7 compliance with those requirements.

In my opinion, Caddo Sewerage District No. 7 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 1998 and 1997.

Internal Control over Compliance

The management of Caddo Sewerage District No. 7 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Caddo Sewerage District No. 7 internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all *matters in the internal control that might be a material weakness*. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be a material weakness. However, I noted other matters involving the internal control over compliance and its operation that I have reported in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Richard C McCallister
Shreveport, LA
May 4, 1999

CADDO SEWERAGE DISTRICT NO. 7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 1998

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Caddo Sewerage District No. 7.
2. Two reportable conditions relating to the audit of the financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. One condition is reported as material non-compliance; one condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Caddo Sewerage District No. 7 were disclosed during the audit.
4. One reportable condition relating to the audit of the major federal award program is reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. The condition is not reported as a material weakness.
5. *The auditor's report on compliance for the major federal award program for Caddo Sewerage District No. 7 expresses an unqualified opinion.*
6. Audit findings relative to the major federal award program for Caddo Sewerage District No. 7 are reported in Part C of this schedule.
7. The programs tested as major programs include U. S. Department of Agriculture Loan Sewer Construction 10.760.
8. The threshold for distinguishing Types A and B programs was \$1,916,319.
9. Caddo Sewerage District No. 7 was not determined to be a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

1. Security for deposits

Condition: The District deposits are not fully collateralized by the bank.

Criteria: Local depositing authorities shall require security for 100% of its deposits.

Effect: Places funds at risk in violation of state law.

Cause: Banking institutions erroneously dropped accounts that were to be covered. Insufficient reporting by bank to District of pledged securities made detection difficult.

Recommendation: Secretary/Treasurer should analyze the fair marked value of new securities being pledged before releasing currently pledged securities and compare that amount with collected bank deposits.

2. Segregation of duties

Condition: Due do the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are for all practical purposes, are missing in the system.

Criteria: When practical, personnel should have appropriate segregation of duties.

Effect: Accounting controls over accounts receivable, collections, and general ledger accounting are compromised

Recommendation: There is no recommendation at this time.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

U. S. Department of Agriculture CFDA No. 10.760

1. Loan Sewer Construction Account year ended December 31, 1998

Reportable Condition: Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are for all practical purposes, are missing in the system.

Criteria: When practical, personnel should have appropriate segregation of duties.

Effect: Accounting controls over accounts receivable, collections, and general ledger accounting are compromised.

Recommendation: There is no recommendation at this time.

CADDO SEWERAGE DISTRICT NO. 7
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 1997

U. S. DEPARTMENT OF AGRICULTURE

1997 – Farmers Home Administration Loan Sewer Construction 10.760

Segregation of duties

Condition: Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are for all practical purposes missing in the system.

Recommendation: None.

Current Status: Same.

**CADDO SEWERAGE DISTRICT NO. 7
P O BOX 7606
SHREVEPORT, LA 71137**

May 4, 1999

CORRECTIVE ACTION PLAN

Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana

Farmers Home Administration
Coushatta, Louisiana

Caddo Sewerage District No. 7 respectfully submits the following corrective action plan for the year ended December 31, 1998.

Name and address of accounting firm:
Richard C. McCallister, CPA
P O Box 44046
Shreveport, LA 71134

Audit period:
December 31, 1998

The findings from the December 31, 1998 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

1. Security for deposits

The District's deposits are not fully collateralized by the bank.

Action taken: Bank has been immediately notified to correct this error and collateralize all deposits. Secretary/Treasurer will review all new pledges with balances before releasing current pledges.

2. Segregation of duties

Due do the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are for all practical purposes are missing in the system.

Action Taken: No action is being taken at this time

C. FINDINGS – FEDERAL AWARD PROGRAMS AUDITS

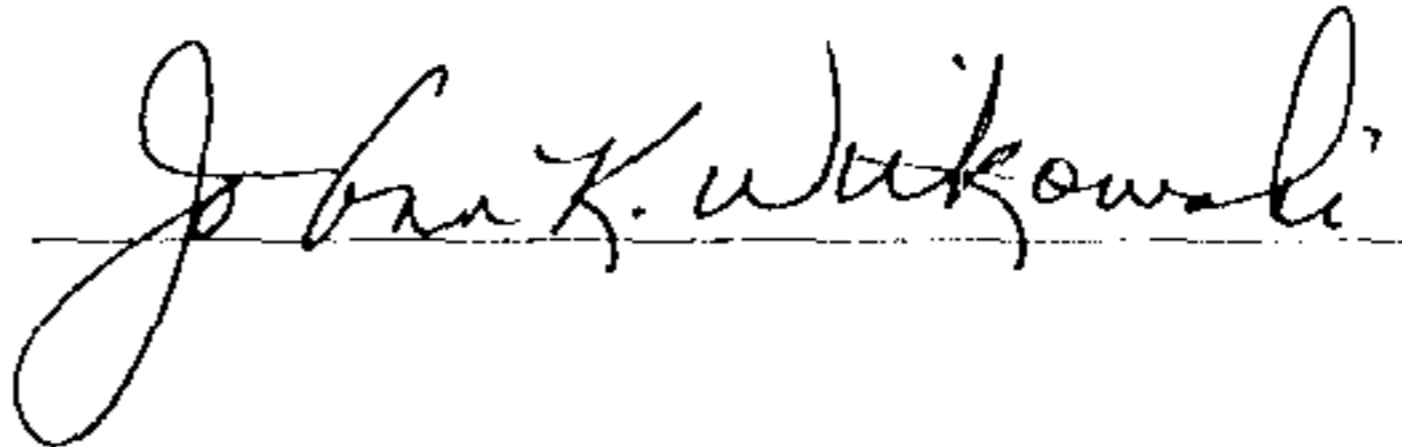
U. S. DEPARTMENT OF AGRICULTURE CFDA No. 10.760

1. Loan Sewer Construction Account year ended December 31, 1998.

Reportable Conditions: Sec B.1.

Very truly yours,

CADDO SEWERAGE DISTRICT NO. 7

By: 

CADDO SEWERAGE DISTRICT NO. 7
THE YEAR 2000 ISSUES
DECEMBER 31, 1998

The District uses computers for their accounting functions and other electronic equipment in its operations. This equipment is subject to become inoperable at the beginning of year 2000. The office computer equipment has been tested for compliance and software vendors of pertinent software have verified their compliance. The District is still corresponding with the manufacturer regarding some of its field equipment that is crucial to operations. All known corrective measures, if any, should be completed before year end.