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CADDO PARISH SEWERAGE DISTRICT NO. 2

CADDO PARISH, LOUISIANA

JUNE 30, 1998 AND 1997

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Release Date OCT 2 1 1998

CADDO PARISH SEWERAGE DISTRICT NO. 2

CADDO PARISH, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

September 21, 1998

The Board of Supervisors
Caddo Parish Sewerage District No. 2
Caddo Parish, Louisiana

Independent Auditor's Report

We have audited the component unit financial statements of Caddo Parish Sewerage District No. 2, a component unit of the Parish of Caddo, Louisiana as of June 30, 1998 and 1997, and for the years then ended, as listed in the table of contents. These component unit financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits.

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 component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of Caddo Parish Sewerage District No. 2 as of June 30, 1998 and 1997, and the results of its operations and cash flows of its proprietary fund for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 1998 on our consideration of the District's internal control over financial reporting, and on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of Caddo Parish Sewerage District No. 2. Such information, with the exception of the schedule of insurance in force at June 30, 1998, on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

CADDO PARISH SEWERAGE DISTRICT NO. 2

BALANCE SHEETS-ALL FUND TYPES AND ACCOUNT GROUP

JUNE 30, 1998 AND 1997

	1998			
	Governmental Fund Type	Proprietary Fund Type	Account Group	Total
<u>ASSETS AND OTHER DEBITS</u>	Debt Service	Enterprise	General Long-Term Debt	(Memo Only)
Cash and cash equivalents:-Note 6				
Maintenance and operating account	-	143,925	-	143,925
General obligation bond sinking account	108,344	-	-	108,344
Certificate of deposit-Note 6	50,000	-	-	50,000
Accounts receivable	-	17,439	-	17,439
Prepaid expenses	-	3,554	-	3,554
Property, plant and equipment-Note 3	-	938,401	-	938,401
Bond issue costs-Note 4	-	4,382	-	4,382
Organizational and incidental costs	-	318	-	318
Amount available in debt service fund	-	-	158,344	158,344
Amount to be provided for retirement of bonded indebtedness from ad valorem taxes	-	-	141,656	141,656
	-	-	141,656	141,656
Total assets and other debits	158,344	1,108,019	300,000	1,566,363
 <u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities:</u>				
Accounts payable	-	4,537	-	4,537
General obligation bonds payable- Note 4	-	-	300,000	300,000
Total liabilities	-	4,537	300,000	304,537
 <u>Fund equity:</u>				
Contributions from other funds	-	1,189,385	-	1,189,385
Fund balance, unreserved	158,344	-	-	158,344
Accumulated deficit-Note 5	-	(85,903)	-	(85,903)
Total fund equity	158,344	1,103,482	-	1,261,826
Total liabilities and fund equity	158,344	1,108,019	300,000	1,566,363

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

1997

<u>Governmental Fund Type</u>	<u>Proprietary Fund Type</u>	<u>Account Group</u>	<u>Total</u>
<u>Debt Service</u>	<u>Enterprise</u>	<u>General Long-Term Debt</u>	<u>(Memo Only)</u>
-	104,331	-	104,331
85,300	-	-	85,300
40,000	-	-	40,000
-	14,923	-	14,923
-	3,348	-	3,348
-	975,017	-	975,017
-	4,815	-	4,815
-	455	-	455
-	-	125,300	125,300
-	-	<u>189,700</u>	<u>189,700</u>
<u>125,300</u>	<u>1,102,889</u>	<u>315,000</u>	<u>1,543,189</u>
-	1,925	-	1,925
-	-	<u>315,000</u>	<u>315,000</u>
-	1,925	315,000	316,925
-	1,189,385	-	1,189,385
125,300	-	-	125,300
-	(88,421)	-	(88,421)
<u>125,300</u>	<u>1,100,964</u>	<u>-</u>	<u>1,226,264</u>
<u>125,300</u>	<u>1,102,889</u>	<u>315,000</u>	<u>1,543,189</u>

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE-

GOVERNMENTAL FUND TYPE (DEBT SERVICE)

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<u>Revenues:</u>		
Ad valorem taxes-Note 2	66,525	64,842
Interest	<u>6,513</u>	<u>1,911</u>
Total revenues	73,038	66,753
 <u>Expenditures:</u>		
Principal-Note 4	15,000	15,000
Interest and fiscal charges	<u>24,994</u>	<u>26,177</u>
Total expenditures	<u>39,994</u>	<u>41,177</u>
 <u>Excess of revenue over expenditures</u>	33,044	25,576
 <u>Fund balance-beginning of year</u>	<u>125,300</u>	<u>99,724</u>
 <u>Fund balance-end of year</u>	<u>158,344</u>	<u>125,300</u>

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

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT-

PROPRIETARY FUND TYPE (ENTERPRISE)

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<u>Operating revenues:</u>		
Sewerage fees	98,570	103,574
<u>Operating expenses:</u>		
Accounting and auditing fees	4,400	4,200
Amortization of bond issue costs	432	432
Amortization of organizational and incidental costs	137	137
Attorney fees	1,222	1,357
Board of supervisors' fees	2,880	3,260
Contract labor	23,780	23,452
Data processing	1,895	-
Depreciation	54,222	54,311
Insurance	4,723	2,320
Laboratory fees	1,890	6,099
Miscellaneous	1,707	511
Office supplies	555	568
Payroll taxes	459	459
Plant supplies	4,404	5,279
Repairs and maintenance	26,200	55,784
Salaries	6,000	6,000
Sewerage billing fees	14,317	19,347
Treatment plant operation contract	427	1,969
Utilities	<u>12,555</u>	<u>16,697</u>
Total operating expenses	<u>162,205</u>	<u>202,182</u>
<u>Loss from operations</u>	(63,635)	(98,608)
<u>Nonoperating revenues:</u>		
Ad valorem taxes-Note 2	55,715	54,305
State revenue sharing	3,288	3,318
Interest	<u>7,150</u>	<u>5,077</u>
Total nonoperating revenues	<u>66,153</u>	<u>62,700</u>
<u>Net income (loss)</u>	2,518	(35,908)
<u>Accumulated deficit-beginning of year</u>	<u>(88,421)</u>	<u>(52,513)</u>
<u>Accumulated deficit-end of year-Note 5</u>	<u>(85,903)</u>	<u>(88,421)</u>

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

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENTS OF CASH FLOWS-PROPRIETARY FUND TYPE (ENTERPRISE)

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<u>Cash flows from operating activities:</u>		
Loss from operations	(63,635)	(98,608)
Adjustments to reconcile loss from operations to net cash (used) by operating activities:		
Depreciation and amortization	54,791	54,880
Changes in assets and liabilities:		
Receivables:		
Accounts	(2,516)	3,357
Prepaid expenses	(206)	35
Accounts payable	<u>2,612</u>	<u>(11,335)</u>
Net cash (used) by operating activities	(8,954)	(51,671)
<u>Cash flows from noncapital financing activities:</u>		
Taxes collected	55,715	54,305
State revenue sharing	<u>3,288</u>	<u>3,318</u>
Net cash provided by noncapital financing activities	59,003	57,623
<u>Cash flows from investing activities:</u>		
Receipts of interest	7,150	5,077
Purchase of equipment	<u>(17,605)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(10,455)</u>	<u>5,077</u>
<u>Net increase in cash and cash equivalents</u>	39,594	11,029
<u>Cash and cash equivalents-beginning of year</u>	<u>104,331</u>	<u>93,302</u>
<u>Cash and cash equivalents-end of year</u>	<u>143,925</u>	<u>104,331</u>

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

CADDO PARISH SEWERAGE DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1998 AND 1997

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Caddo Parish Sewerage District No. 2 ("the District") conform to generally accepted accounting principles as applicable to local governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes and to the guides set forth in the Louisiana Governmental Audit Guide.

The following is a summary of certain significant accounting policies:

A. Financial Reporting Entity

The District is a component unit of the Parish of Caddo, Louisiana. The financial statements include all funds and the account group which are controlled by or are dependent on the District's Board of Supervisors. Control by or dependence on the Parish was determined on the basis of taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility.

Fund Accounting

The accounts of the District are organized on the basis of funds and an 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, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two generic fund types and two broad fund categories as follows:

Governmental Funds

Debt Service Funds-Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Proprietary Funds

Enterprise Funds-Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1. Summary of Significant Accounting Policies (Continued)

B. Fixed Assets and Long-Term Liabilities

Long-term liabilities expected to be financed from government funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

This account group is not a fund. It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

All fixed assets are stated at historical cost. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives by type of asset are as follows:

Treatment and disposal plant	20-50 years
Sewer collection system	10-50 years
Equipment	5-15 years
Office furniture and fixtures	15 years

C. Basis of Accounting

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

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer assessed income is considered "measurable" when in the hands of intermediary collecting governments and is recognized as revenue at that time.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

1. Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents

Cash and cash equivalents includes all cash on deposit with maturities of three months or less.

E. Capitalization of Construction Period Interest

The amount of interest cost capitalized is equal to the average amount of accumulated expenditures multiplied by the average interest rate on the general obligation bonds outstanding for the period during which construction occurs.

F. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes on the District's financial position and operations.

G. Total Columns on Combined Statements

Total columns on the Combined Statements are captioned "Memo Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. *Interfund eliminations have not been made in the aggregation of this data.*

2. Ad Valorem Taxes

Ad valorem taxes are recorded as received. Such taxes are levied by the District in November of each calendar year and are due by December 31 of that year on the assessed valuation of property located within the District's boundaries. Hence, even though taxes for January 1 through June 30 are measurable as of June 30, they do not meet the "availability" criteria for accrual since they are not due within 60 days of the District's fiscal year-end. Accordingly, such taxes are not recorded until received.

During the year ended June 30, 1998, ad valorem taxes received were based on the December 31, 1997 net taxable value of \$2,818,510. The total millage rate for the calendar year 1997 was 44.10 mills which consisted of 20.10 mills for maintenance and operating and 24.00 mills for paying the principal and interest on general obligation bonds.

During the year ended June 30, 1997, ad valorem taxes received were based on the December 31, 1996 net taxable value of \$2,826,070. The total millage rate for the calendar year 1996 was 44.25 mills which consisted of 20.25 mills for maintenance and operating and 24.00 mills for paying the principal and interest on general obligation bonds.

3. Property, Plant and Equipment

The following is a summary of property, plant and equipment accounts and related accumulated depreciation:

	<u>June 30,</u> <u>1998</u>	<u>June 30,</u> <u>1997</u>
Office furniture and fixtures	1,915	1,915

3. Property, Plant and Equipment (Continued)

	June 30, <u>1998</u>	June 30, <u>1997</u>
Sewerage collection system	464,440	446,830
Treatment and disposal plant	1,143,600	1,143,600
Equipment	<u>18,878</u>	<u>18,879</u>
	1,628,833	1,611,224
<u>Less-accumulated depreciation</u>	<u>746,684</u>	<u>692,459</u>
	882,149	918,765
Real estate and right-of-ways	<u>56,252</u>	<u>56,252</u>
	<u><u>938,401</u></u>	<u><u>975,017</u></u>

The treatment and disposal plant was upgraded during 1993 at an approximate cost of \$754,000, including capitalized interest of \$58,472.

4. General Obligation Bonds

On May 26, 1989, the District sold \$390,000 of general obligation bonds dated May 1, 1989 at par value for the purpose of upgrading the present sewerage facilities. Principal maturities range from \$10,000 to \$40,000 annually, together with interest at rates ranging from 7.6% to 11.0%. Future required debt service payments, including interest of \$159,540, are as follows at June 30, 1998:

1999	43,480
2000	41,940
2001	40,400
2002	38,850
2003	42,300
Thereafter	<u>252,570</u>
Total debt service remaining, including interest	<u><u>459,540</u></u>

The bonds are secured by ad valorem taxes to be imposed and collected annually in excess of all other taxes on all of the property subject to taxation within the territorial limits of Caddo Parish Sewerage District No. 2 under the constitution and laws of Louisiana, sufficient in amount to pay the principal and the interest thereon as they severally mature.

The cost incurred in issuing the bonds is being amortized on a straight-line basis over a period of 20 years, the estimated life of these bonds.

The following is a summary of bond transactions of the District for the years ended June 30, 1998 and 1997:

Bonds payable at June 30, 1996	330,000
Bonds retired	<u>15,000</u>
Bonds payable at June 30, 1997	315,000
Bonds retired	<u>15,000</u>
Bonds payable at June 30, 1998	<u><u>300,000</u></u>

5. Accumulated Deficit

The Enterprise Fund had accumulated deficits of \$85,903 and \$88,421 at June 30, 1998 and 1997, respectively. Management intends to eliminate the existing accumulated deficit through increased revenue from ad valorem taxes.

6. Cash and Certificate of Deposit

All cash and certificates of deposit are entirely insured or collateralized. The certificate of deposit represents an investment of excess funds in a national bank whose principal office is in the State of Louisiana. Its market value approximates cost at June 30, 1998 and 1997.

SUPPLEMENTARY INFORMATION

CADDO PARISH SEWERAGE DISTRICT NO. 2

SCHEDULE OF INSURANCE IN FORCE

JUNE 30, 1998

Coverage

General liability	<u>500,000</u>
Fire and extended coverage, vandalism and malicious mischief	<u>589,330</u>
Fidelity bond on secretary-bookkeeper	<u>10,000</u>
Computer insurance	<u>3,648</u>

UNAUDITED

CADDO PARISH SEWERAGE DISTRICT NO. 2

SCHEDULE OF PER DIEM PAID TO BOARD OF SUPERVISORS

FOR THE YEAR ENDED JUNE 30, 1998

<u>Board Member</u>	<u>Meetings Attended Regular</u>	<u>Compensated for Regular</u>	<u>Total</u>
Thomas Christie	11	11	660
Raymond E. Donelson	10	10	600
Tom Duncan	9	9	540
Brad Webb	7	7	480
Terry Streetman	10	10	<u>600</u>
Total per diem paid			<u>2,880</u>

OTHER REPORTS

September 21, 1998

The Board of Supervisors
Caddo Parish Sewerage District No. 2
Caddo Parish, Louisiana

Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

We have audited the component unit financial statements of Caddo Parish Sewerage District No. 2 as of and for the year ended June 30, 1998, and have issued our report thereon dated September 21, 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 the District's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 component unit financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as Item 98-1.

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. 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 believe Item 98-1 to be a material weakness.

This report is intended for the information of the Board of Supervisors and the Legislative Auditor's Office of the State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

Heard, R. Elroy + Vestal, LLP

CADDO PARISH SEWERAGE DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 1998

We have audited the financial statements of Caddo Parish Sewerage District No. 2 as of and for the year ended June 30, 1998, and have issued our report thereon dated September 21, 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 weakness was noted; no management letter was issued.

Compliance - no material noncompliance was noted.

b. Federal Awards - None

Section II - Financial Statement Findings

98-1 There is inadequate segregation of duties in the control structure over cash. One individual is responsible for receiving cash, making deposits, preparing disbursements, recording transactions, and preparing bank reconciliations. Adequate internal control requires appropriate segregation of duties considered to be incompatible; however, the District has informed us that this condition is due to economic limitations on the number of personnel employed by the District. Accordingly, full segregation of duties is not possible.

CADDO PARISH SEWERAGE DISTRICT NO. 2

SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 1998

Section I - Internal Control Material to the Financial Statements

- 97-1 Lack of segregation of duties over cash. This finding remains unresolved, as it is not economically feasible for the District to add personnel.