

WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA

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FINANCIAL STATEMENTS

June 30, 1999

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Release Date DEC 29 1999

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of Waterworks District No. 7, Caddo Parish, Louisiana, a component unit of the Parish of Caddo, State of Louisiana, as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of Waterworks District No. 7, Caddo Parish, Louisiana's management. Our responsibility is to express an opinion on these financial statements based on our audit.


Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletins 98-1 and 99-1, *Disclosures about Year 2000 Issues*, require disclosure of certain matters regarding the year 2000 issue. Waterworks District No. 7, Caddo Parish, Louisiana has included such disclosures in Note 9. 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 Waterworks District No. 7, Caddo Parish, Louisiana's disclosures with respect to the year 2000 issue made in Note 9. Further, we do not provide assurance that Waterworks District No. 7, Caddo Parish, Louisiana is or will be year 2000 ready, that Waterworks District No. 7, Caddo Parish, Louisiana's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Waterworks District No. 7, Caddo 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 above present fairly, in all material respects, the financial position of Waterworks District No. 7, Caddo Parish, Louisiana, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 1999, on our consideration of Waterworks District No. 7, Caddo Parish, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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


Certified Public Accountants
Shreveport, Louisiana

October 19, 1999

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

Balance Sheet
June 30, 1999

ASSETS

Current Assets:

Cash and cash equivalents	\$ 98,055
Accounts receivable - net	40,143
Prepaid expenses	<u>3,772</u>
Total Current Assets	<u>141,970</u>

Investments: Available-for-sale	42,830
Property, plant and equipment, net	1,483,781

Restricted Assets:

Cash	<u>326,988</u>
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Total Assets	<u>\$ 1,995,569</u>
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LIABILITIES AND EQUITY

Current Liabilities:

Accounts payable	\$ 4,282
Interest payable	71,578
Current portion of long-term debt	<u>35,062</u>
Total current liabilities	<u>110,922</u>

Long-term Liabilities:

Bonds payable	<u>1,390,958</u>
Total Liabilities	1,501,880

Equity:

Contributed capital	19,736
Retained earnings	
Reserved	305,626
Unreserved	<u>168,327</u>
Total retained earnings	<u>473,953</u>

Total Equity	<u>493,689</u>
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Total Liabilities and Equity	<u>\$ 1,995,569</u>
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**WATERWORKS DISTRICT NO. 7
CADDO PARISH, LOUISIANA**

Statement of Revenues and Expenses
For the Year Ended June 30, 1999

Operating revenue:	
Water sales	\$ 367,091
Meter fees and connection charges	<u>28,877</u>
Total operating revenue	<u>395,968</u>
Operating expenses:	
Advertising	70
Auto expense	4,101
Bad debt expense	4,526
Board member fees	6,160
Depreciation	39,901
Insurance	4,236
Interest	89,364
Lease expense	3,100
Office expense	11,692
Professional fees	9,218
Repairs and maintenance	80,109
Salaries	48,206
Taxes and licenses	5,106
Utilities	<u>25,268</u>
Total operating expenses	<u>331,057</u>
Operating Income	<u>64,911</u>
Nonoperating income (expense):	
Ad valorem taxes	15,467
Interest income	7,338
Grant income	70,000
Investment income	1,267
Miscellaneous Income	<u>983</u>
Total nonoperating income (expense):	<u>95,055</u>
Net income	<u><u>\$ 159,966</u></u>

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

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

Statements of Changes in Retained Earnings
For the Year Ended June 30, 1999

	New Well Fund	Depreciation Fund	Note Revenue Fund	Reserve Fund	Keith Rd. Well Fund	Ad Valorem Tax Fund	Unreserved	Total
Balance, June 30, 1998	\$ 26,261	\$ 41,915	\$ 101,611	\$ 11,459	\$ 12,516	\$ 84,803	\$ 35,422	\$ 313,987
Adjustment for reserve requirements		6,890	2,910	6,634	801	9,826	(27,061)	-
Net Income							159,966	159,966
Balance, June 30, 1999	<u>\$ 26,261</u>	<u>\$ 48,805</u>	<u>\$ 104,521</u>	<u>\$ 18,093</u>	<u>\$ 13,317</u>	<u>\$ 94,629</u>	<u>\$ 168,327</u>	<u>\$ 473,953</u>

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

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

Statement of Cash Flows
For the Year Ended June 30, 1999

Cash Flows From Operating Activities

Net income	\$ 159,966
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	39,901
Decrease in accounts receivable	7,647
Decrease in prepaid expenses	491
Decrease in accounts payable	(5,586)
Decrease in interest payable	(377)
Net cash provided by operating activities	<u>202,042</u>

Cash Flows from Investing Activities

Purchases of property, plant & equipment	(103,374)
Purchases of investments	(273,118)
Proceeds from sales of investments	229,239
Investment income	1,049
Net cash used in investing activities	<u>(146,204)</u>

Cash Flows from Financial Activities

Repayment of bonds payable	(32,690)
Net cash used in financing activities	<u>(32,690)</u>

Net increase in cash	<u>23,148</u>
Cash and cash equivalents, June 30, 1998	<u>401,895</u>
Cash and cash equivalents, June 30, 1999	<u><u>\$ 425,043</u></u>

Supplemental disclosure:

Interest paid during the year ended June 30, 1999 totaled \$89,364.

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

Notes to Financial Statements
June 30, 1999

Waterworks District No. 7, Caddo Parish, Louisiana (the District) was created by the Caddo Parish Police Jury by ordinance on January 8, 1975, as provided under the Louisiana Revised Statutes 33:3811. The purpose of the District is to provide water service to the residents of the District. The District is governed by a five member Board of Commissioners appointed by the Caddo Parish Commission. The Commissioners serve five-year terms and are compensated under the provisions of Louisiana Revised Statutes 33:3819. The District is comprised of property in southwest Caddo Parish and serves approximately 1,200 people. The District's operations consist of six wells, five treatment plants, and approximately 61 miles of water lines. The District employs two full-time and one part-time employees.

1. Summary of Significant Accounting Policies:

- A. Basis of Presentation - The accompanying general purpose financial statements of the Waterworks District No. 7, Caddo Parish, Louisiana have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.
- B. Reporting Entity - The District is a component unit of the Caddo Parish Commission, the financial reporting entity. The Commission is financially accountable for the District because it appoints a voting majority of the board and has the ability to impose its will on them.

The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Commission, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

- C. Fund Accounting - The District is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.
- D. Basis of Accounting - *The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The Enterprise Fund uses the following practices in recording certain revenues:*

Revenues

Ad valorem taxes are levied on January 1, due on December 31, and attach as an enforceable lien on property as of May 11, 1999. Fees for water, meters, and connection charges are recognized when earned. The District was the beneficiary of three grants totaling \$70,000 from the Office of Rural Development to the Caddo Parish Commission, during the year ended June 30, 1999.

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

Notes to Financial Statements
June 30, 1999

1. Summary of Significant Accounting Policies (Continued):

D. Basis of Accounting – (Continued)

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

E. Cash and Cash Equivalents - Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the district may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

F. Investments - Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the district's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents. GASB Statement No. 31 requires the District to report investments at fair value in the balance sheet.

G. Accounts Receivable – Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

H. Property, Plant, and Equipment – Additions to the utility plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Capitalized construction period costs including interest charges, are included in the cost of assets. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

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

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

- I. Restricted Assets** -- The District, because of certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash) that can be used only to service outstanding debt.
- J. Compensated Absences** – No liability is recorded for nonvesting accumulating rights to receive vacation or sick pay benefits.

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

Notes to Financial Statements
June 30, 1999

1. Summary of Significant Accounting Policies (Continued):

- K. Statement of Cash Flows – For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.
- L. Inventories – Inventory of supplies held by the District is not material and is charged to operations as purchased.
- M. Fund Equity – Contributed capital is recorded by the District for capital grants restricted for the acquisition or construction of capital assets. Contributed capital is not amortized based on the depreciation recognized on that portion of the assets acquired or constructed from such resources.

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

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

2. Cash:

The District's cash is categorized to give an indication of the level of risk assumed by the District at June 30, 1999. The categories are described as follows:

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

Cash deposits at June 30, 1999, categorized by level or risk, are:

Description	Category			Bank Balance	Carrying Amount
	1	2	3		
Unrestricted	\$ 23,187	\$ -	\$ 69,070	\$ 92,257	\$ 90,444
Restricted	98,174	-	228,813	326,987	326,987
Total cash	<u>\$ 121,361</u>	<u>\$ -</u>	<u>\$ 297,883</u>	<u>\$ 419,244</u>	<u>\$ 417,431</u>

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

Notes to Financial Statements
June 30, 1999

3. Investments:

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the district's name
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name

At fiscal year-end, the District's investment balances were as follows:

Type of Investment	1	2	3	Fair Value	Amortized Cost	Cost	Total Carrying Amount
Certificates of Deposit	\$ 27,846	\$ -	\$ -	\$ 27,846	\$ -	\$ -	\$ 27,846
Bonds	14,984	-	-	14,984	-	-	14,984
	<u>\$ 42,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,830</u>

Calculation of the net increase (decrease) in the fair value of investments – aggregate method:

Fair value at June 30, 1999	\$ 42,830
Add: Proceeds of investments sold	229,239
Less: Cost of investments purchased	(273,118)
Less: Fair value at July 1, 1998	-
Change in fair value of investments	<u>\$ (1,049)</u>

4. Ad Valorem Taxes:

The District levies taxes on real and business personal property within its boundaries. Property taxes attach as an enforceable lien on property as of May 11, 1999. Property taxes are recorded as receivables and revenue in the year assessed to the extent that revenues are collected within 60 days after year-end.

The authorized and levied ad valorem taxes for the year ended June 30, 1999, totaled 4.69 mills. The taxes levied during the year ended June 30, 1999, were \$16,926 on property with an assessed value of \$3,608,760.

5. Components of Restricted Assets:

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

Cash – Reserve Account	\$ 18,093
Cash – Ad Valorem Tax Fund	94,629
Cash – Note Revenue Fund	104,521
Cash – New Well Fund	26,261
Cash – New Well Fund – Keith Road	13,317
Cash – Construction Fund	21,361
Cash – Depreciation Fund	48,805
	<u>\$ 326,987</u>

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

Notes to Financial Statements
June 30, 1999

6. Property, Plant and Equipment:

Property, plant and equipment consist of the following:

Water distribution system	\$ 1,319,525
Water treatment plants	515,018
Meters	16,896
Building	4,890
Furniture and equipment	30,220
Land	<u>25,200</u>
	1,911,749
Less accumulated depreciation	<u>427,968</u>
	<u>\$ 1,483,781</u>

7. Changes in Long-Term Debt:

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 1999:

	<u>General Obligation</u>	<u>Utilities Revenue</u>	<u>Certificates of Indebtedness</u>	<u>Total</u>
Debt payable at June 30, 1998	\$ 175,000	\$ 1,100,711	\$ 183,000	\$ 1,458,711
Debt retired	<u>4,000</u>	<u>12,691</u>	<u>16,000</u>	<u>32,691</u>
Debt payable at June 30, 1999	<u>\$ 171,000</u>	<u>\$ 1,088,020</u>	<u>\$ 167,000</u>	<u>\$ 1,426,020</u>

Debt payable at June 30, 1999 is comprised of the following individual issues:

General Obligation

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

\$ 171,000

Utilities Revenue

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

110,000

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

652,000

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

326,020

\$ 1,259,020

Certificate of Indebtedness

\$200,000 of Certificate of Indebtedness, dated February, 1997; due in annual installments of \$17,000-\$25,000 through December, 2006; interest at 5.50%

\$ 167,000

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

Notes to Financial Statements
June 30, 1999

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

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

The annual requirements to amortize all debt outstanding as of June 30, 1999, including interest payments of \$1,529,281 are as follows:

Year Ending June 30,	General Obligation	Revenue Bonds	Certificates of Indebtedness	Total
2000	\$ 12,550	\$ 84,425	\$ 25,717	\$ 122,692
2001	12,350	83,725	25,755	121,830
2002	12,150	84,025	25,738	121,913
2003	12,950	84,256	25,665	122,871
2004	12,700	83,418	25,538	121,656
2005-2009	62,600	419,060	78,050	559,710
2010-2014	63,700	419,623	-	483,323
2015-2019	65,350	431,854	-	497,204
2020-2024	38,550	432,998	-	471,548
2025-2029	-	240,323	-	240,323
2030-2033	-	92,232	-	92,232
	<u>\$ 292,900</u>	<u>\$ 2,455,939</u>	<u>\$ 206,463</u>	<u>\$ 2,955,302</u>

8. Commitments and Contingencies:

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

During 1997, a suit was filed against the District by a former employee alleging sexual harassment and wrongful discharge. An offer of settlement has been made by the District subsequent to the balance sheet date. If negotiations are unsuccessful, the District's attorney estimates that the loss, if any, resulting from the suit will not have a material impact on the District's financial position, results of operations, or cash flows in future years.

9. Year 2000 Issue:

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

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

Notes to Financial Statements
June 30, 1999

9. Year 2000 Issue (Continued):

The District has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting District operations. Based on this inventory, the District is in the remediation stage, having purchased from outside vendors for \$4,644, hardware and software believed to be year 2000 compliant for the billing system as of June 30, 1999. Testing and validation of the systems will need to be completed after the hardware and software are installed.

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. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be Year 2000 ready.

10. Operating Leases:

The District has entered into four operating leases for plots of land, of which three are for the production of water and one is for stand pipe storage. Two of the leases originated in 1985 and are for 40-year terms with an option to renew. The other two originated in 1991, one with a 40-year term and the other with a term for as long as the District produces water from the well.

The following is a schedule by years of future rental payments required under operating leases having remaining noncancelable lease terms in excess of one year as of June 30, 1999:

Year ending June 30:	
2000	3,100
2001	3,100
2002	3,100
2003	3,100
2004	3,100
2005-2031	69,800

SUPPLEMENTAL INFORMATION

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

**Schedule of Board of Commissioner's Compensation and Expense Reimbursement
For the Year Ended June 30, 1999**

Michael Asher	\$	660
Mary Collier		1,440
Velma Howard		1,300
Linda Strickland		1,320
Jewell Wagner		<u>1,440</u>
Total	\$	<u>6,160</u>

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

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 1999**

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

98-1 Fidelity Bond Coverage

This finding remains unresolved as of June 30, 1999. Refer to current year finding 99-3.

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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1999

We have audited the general purpose financial statements of Waterworks District No. 7, Caddo Parish, Louisiana as of and for the year ended June 30, 1999, and have issued our report thereon dated October 19, 1999. 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, 1999 resulted in a qualified opinion.

Section I – Summary of Auditor’s Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No

Reportable Conditions Yes No

Compliance

Compliance Material to Financial Statements

Yes No

b. Federal Awards – None awarded for year ended June 30, 1999.

c. Identification of Major Programs: N/A

Section II – Financial Statement Findings

99-1 Investments in Certificates of Deposit

Statement of Condition: The District’s investments in certificates of deposit do not meet the requirements of Louisiana Revised Statute 33:2955 for the year ended June 30, 1999.

Criteria: Louisiana Revised Statute 33:2955, paragraph A(1)d requires investments in time certificates of deposit to be made with a bank domiciled or having a branch office in the state of Louisiana.

Effect of Condition: The District’s investments of \$27,846 in time certificates of deposits as of June 30, 1999 are made with banks outside the state of Louisiana causing the District to be in violation of the statute.

Cause of Condition: The District did not make the investment firm aware of the state statute on investments.

Recommendation: The District should review the monthly investment statement for statute violations and inform the investment firm of the requirements of the statute.

Response: We concur with auditor’s recommendations. The District will start reviewing the monthly statements for possible violations and send a copy of the state statute to the investment firm with instructions to strictly adhere to state law.

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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1999

99-2 Restricted Depreciation Fund Balance

Statement of Condition: The balance in the restricted depreciation fund account does not meet the requirements of the bond covenants for the year ended June 30, 1999.

Criteria: The bond covenants require a monthly deposit into the restricted depreciation fund for the three revenue bonds.

Effect of Condition: The actual balance of the restricted depreciation fund at June 30, 1999 was \$40,805. The balance per the bond covenants should have been \$59,788, or a deficiency of \$10,983.

Cause of Condition: The required information on all the bond covenants was not available.

Recommendation: The District should transfer the amount from the operating account into the restricted depreciation fund to correct the deficiency.

Response: We concur with the auditor's recommendation. The amount will be transferred into the depreciation fund to correct the deficiency.

99-3 Fidelity Bond Coverage

Statement of Condition: Insurance coverage by fidelity bond does not meet the bond covenant requirements of USDA Rural Development for the year ended June 30, 1999.

Criteria: The USDA Rural Development requires the minimum amount of insurance coverage by fidelity bond be \$150,000. For the year ended June 30, 1999, actual coverage was \$18,750 per employee and other board member, totaling \$112,500.

Effect of Condition: The actual fidelity bond coverage was less than the required coverage by \$37,500, causing a violation of the bond covenants.

Cause of Condition: The District dropped two board members from coverage on January 6, 1999.

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

Response: We concur with auditor's recommendations. Fidelity bond coverage will be increased to meet bond covenant requirements.

99-4 Property Damage Insurance Coverage

Statement of Condition: Insurance coverage for property damage does not meet the bond covenant requirements of USDA Rural Development for the year ended June 30, 1999.

Criteria: The USDA Rural Development requires the minimum amount of insurance coverage for property damage to be \$100,000.

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

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1999**

99-4 Property Damage Insurance Coverage (Continued)

Effect of Condition: The District does not carry property damage insurance coverage, causing a \$100,000 violation of the bond covenants.

Cause of Condition: The District was unaware of the need for property damage insurance coverage.

Recommendation: The District should purchase the required property damage insurance coverage.

Response: We concur with auditor's recommendation. Property damage insurance will be purchased in an amount necessary to meet the bond covenant requirements.



WATERWORKS DISTRICT #7

6836 COLQUITT ROAD
KEITHVILLE, LOUISIANA 71047

Mr. Daniel G. Kyle, CPA
Legislative Auditor, State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Kyle:

The Waterworks District No. 7, Caddo Parish, Louisiana, respectfully submits the following corrective action plan for the year ended June 30, 1999, for the Schedule of Findings.

FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 99-1:

Recommendations: The District should review the monthly investment statements for statute violations and inform the investment firm of the requirements of the statute.

Action Taken: The District has contacted the investment firm concerning the violations. The certificates of deposit will be redeemed in November, 1999 and the funds will be invested according to the state statute.

Finding 99-2:

Recommendation: The District should transfer the amount from the operating account into the restricted depreciation fund to correct the deficiency.

Action Taken: The District transferred \$10,983 from the operating account into the restricted depreciation fund on October 15, 1999.

Finding 99-3:

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

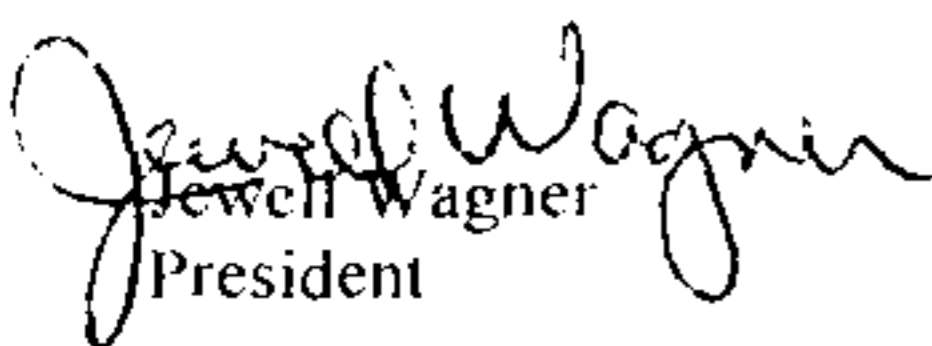
Action Taken: The District contacted their insurance agent during the course of the audit concerning the fidelity bond coverage. Coverage was increased on September 24, 1999 to the required amount as required by the bond covenants.

Finding 99-4:

Recommendation: The District should purchase the required property damage insurance coverage.

Action Taken: The District will contact their insurance agent in November, 1999 and purchase the required property damage insurance coverage.

Sincerely,


Jewell Wagner
President

OTHER REPORTS



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

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

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

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

We have audited the general purpose financial statements of Waterworks District No. 7, Caddo Parish, Louisiana, as of and for the year ended June 30, 1999, and have issued our report thereon dated October 7, 1999, which was qualified because insufficient audit evidence exists to support Waterworks District No. 7, Caddo Parish, Louisiana's disclosures with respect to the Year 2000 Issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

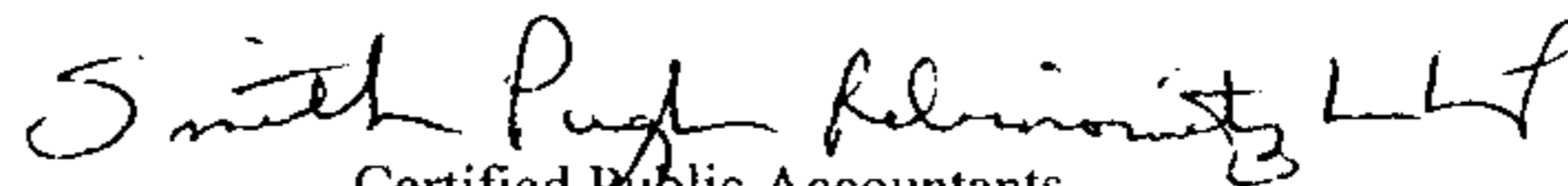
As part of obtaining reasonable assurance about whether Waterworks District No. 7, Caddo Parish, Louisiana's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 99-2, 99-3, and 99-4.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waterworks District No. 7, Caddo Parish, Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters 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 Waterworks District No. 7, Caddo Parish, Louisiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 99-1, 99-2, 99-3, and 99-4.

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 none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management and the Board of Commissioners.


Certified Public Accountants
Shreveport, Louisiana

October 19, 1999