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WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

MANSFIELD, LOUISIANA

FINANCIAL STATEMENTS

December 31, 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 9.1.04

Marsha O. Millican
Certified Public Accountant
Shreveport, Louisiana

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Financial Statements
December 31, 2003

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Marsha O. Millican

CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

Board of Commissioners
Waterworks District No. 1 of the Parish of DeSoto
Mansfield, Louisiana

I have audited the accompanying component unit financial statements of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana, a component unit of the DeSoto Parish Police Jury, as of and for the year ended December 31, 2003. These component unit financial statements are the responsibility of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana's, management. My responsibility is to express an opinion on these component unit financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and A-133 require that I plan and perform the audit 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana, as of December 31, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying component unit financial statements have been prepared assuming that Waterworks District No. 1 of the Parish of DeSoto, will continue as a going concern. As discussed in Note 12 to the component unit financial statements, on July 21, 2004 the District used restricted monies for unintended purposes, has not complied with covenants of the \$1,450,000 Water Bond Indenture, has not complied with bond indenture requirements of the Drinking Water Revolving Loan Fund (2001 DEQ), does not have the required number of certified operators at the Water Treatment Plant, and anticipates that the revenue generated during the year ending December 31, 2004 will not be sufficient to fund operating

expenses and debt service for the year. These conditions raise substantial doubt about the District's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 13. The component unit financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, I have also issued my report dated August 19, 2004, on my consideration of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Marda O. Milligan

Certified Public Accountant
August 19, 2004

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTOBalance Sheet
December 31, 2003

<u>Assets</u>	
Cash	\$ 63,822
Taxes Receivable	905,481
Accounts Receivable	8,689
Other Receivables	3,337
Investments	33,067
Restricted Assets	
Cash	19,556
Investments	657,968
Deposits	800
Fixed Assets (Net)	14,887,896
Bond Issuance Costs	<u>86,318</u>
 Total Assets	 <u>\$16,666,934</u>
 <u>Liabilities and Equity</u>	
<u>Liabilities</u>	
Accounts Payable	\$ 30,044
Customer Deposits Payable	63,255
General Obligation Bonds Payable	8,220,000
Water Revenue Bonds Payable - Series 2001	1,432,330
Water Revenue Bonds Payable - Series 2001A	1,969,194
Accrued Interest Payable	<u>139,270</u>
Total Liabilities	<u>11,854,093</u>
 <u>Equity</u>	
Contributed Capital	56,875
Retained Earnings:	
Reserved for Bond Retirement	492,788
Reserved for Customer Deposits	4,176
Unreserved	<u>4,259,002</u>
Total Retained Earnings	<u>4,755,966</u>
 Total Equity	 <u>4,812,841</u>
 Total Liabilities and Equity	 <u>\$16,666,934</u>

See accompanying notes to financial statements.

WATERWORKS DISTRICT NO. 1 OF LOUISIANAStatement of Revenues, Expenses, and Changes in
Retained EarningsYear Ended December 31, 2003

Revenues:	
Ad valorem taxes	\$ 973,722
Water sales	494,041
Meter Installation Fees	25,185
Service Charges	12,455
Fire Hydrant Fees	6,300
State Revenue Sharing	5,301
Miscellaneous revenues	<u>29,682</u>
Total revenues	<u>1,546,686</u>
Operating expenses:	
Administrative expenses	40,316
Operating expenses	651,212
Depreciation	<u>380,356</u>
Total expenses	<u>1,071,884</u>
Operating income	474,802
Non-operating revenues (expenses):	
Interest income	11,448
Interest expense	<u>(524,130)</u>
Total non-operating revenues (expenses)	<u>(512,682)</u>
Net loss	(37,880)
Retained earnings - beginning of year	<u>4,793,846</u>
Retained earnings - end of year	<u>\$4,755,966</u>

See accompanying notes to financial statements.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTOStatement of Cash Flows - Proprietary Fund Type
Year Ended December 31, 2003

Cash flows from operating activities:	
Ad valorem taxes received	\$ 983,051
Cash received from customers	542,463
Cash payments to suppliers	(1,048,088)
Other operating income	<u>34,983</u>
Net cash provided by operating activities	<u>512,409</u>
Cash flows from capital and related financing activities:	
Construction expenditures	(810,285)
Interest paid on long term debt	(502,220)
Proceeds of long term debt	1,129,882
Principal payments on long term debt	<u>(462,400)</u>
Net cash provided by capital and related financing activities	<u>(645,023)</u>
Cash flows from investing activities:	
Investments in LAMP investments	(375,132)
Withdrawals from LAMP investments	524,650
Interest received on investments	<u>(10,743)</u>
Net cash provided by investing activities	<u>138,775</u>
Net increase in cash	6,161
Cash, beginning of year (including \$2,700 in restricted assets)	<u>77,217</u>
Cash, end of year (including \$19,556 in restricted assets)	<u>\$ 83,378</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 474,802
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	380,356
Amortization	4,490
Changes in assets and liabilities:	
Decrease in taxes receivable	9,329
Decrease in accounts receivable	4,482
Increase in other receivables	(3,337)
Increase in deposits	(800)
Increase in customer deposits	5,305
Decrease in construction payable	(366,028)
Increase in accounts payable	<u>3,810</u>
Net cash provided by operating activities	<u>\$ 512,409</u>

See accompanying notes to financial statements.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 2003

Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana, was created by Ordinance No 2, of the DeSoto Parish Police Jury on July 24, 1969. The ordinance states that the purpose of the District is to facilitate plans and arrangements for feasibility studies and surveys and the financing, construction, development and operation of a water works system to provide a public water supply within the proposed District. The District is a component unit of the DeSoto Parish Police Jury and is governed by a board of nine commissioners appointed by DeSoto Parish Police Jury.

Waterworks District No. 1 of the Parish of DeSoto is in the process of constructing a water system to assist in meeting the domestic, commercial and fire protection demands in DeSoto Parish within the boundaries of the District. Construction of this system is being funded with revenues from a 5.19 mill ad valorem tax proposition passed by voters of April 5, 1997. A 1.02 mill property tax millage authorized to be levied in the years 1997 through 2006 to subsidize operation and maintenance expenses of the system was also passed April 5, 1997.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Waterworks District No. 1 of the Parish DeSoto have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The following is a summary of the more significant accounting policies:

Basis of Accounting. The accrual basis of accounting is utilized by the District. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Investments. Investments are stated at cost which approximates market.

Cash Flows. For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Bad Debts. Taxes receivable are deemed to be fully collectible. An allowance for doubtful accounts is maintained for estimated uncollectible utility receivables.

2. CASH:

At December 31, 2003, all cash balances were fully insured by FDIC insurance.

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 2003

3. PER DIEM PAID TO COMMISSIONERS:

No per diem was paid to commissioners for the year ended December 31, 2003.

4. TAXES RECEIVABLE:

Ad valorem taxes are collected by the DeSoto Parish Sheriff and remitted to the District on a monthly basis. For the year ended December 31, 2002, taxes of 6.21 mills were levied with 5.19 mills dedicated to bond retirement and 1.01 mills dedicated for general operating purposes. Taxes receivable at December 31, 2003 are considered to be fully collectible.

5. INVESTMENTS:

Investments consist of funds invested in the Louisiana Asset Management Pool (LAMP). LAMP was established and is administered by LAMP, Inc., a nonprofit corporation organized under the law of State of Louisiana. LAMP accepts deposits from public entities. Upon the making of an investment, a public entity becomes a member of LAMP, Inc., similar to a corporate shareholder, and maintains certain rights with respect to the governance of the corporation.

The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality vehicles for investment. The LAMP portfolio includes only securities and obligations in which local governments in Louisiana are authorized to invest. LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, U. S. government, or one of its agencies. The dollar weighted average portfolio of LAMP assets is restricted to not more than 90 days and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their balances.

At December 31, 2003 funds on deposit with LAMP (at cost) totaled \$691,035.

6. ACCOUNTS RECEIVABLE:

Accounts receivable for customer water bills at December 31, 2003 totaled \$17,784 less an allowance of doubtful account of \$9,095.

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 2003

7. RESTRICTED ASSETS

Restricted assets consist of amounts restricted as follows:

Customer Deposits	\$ 17,037
Water Revenue Bond Indenture	<u>660,487</u>
Total	<u>\$ 677,524</u>

8. FIXED ASSETS:

A summary of fixed assets follows:

Office Furniture	\$ 3,399
Machinery & Equipment	124,582
Water System	<u>15,804,569</u>
	15,932,550
Less: Accumulated Depreciation	<u>1,044,654</u>
Net fixed assets	<u>\$14,887,896</u>

9. LONG-TERM DEBT:

The following is a summary of debt transactions of Waterworks District No. 2 of the Parish of DeSoto for the year ended December 31, 2003:

	<u>General Obligation Bonds</u>	<u>Water Revenue Bonds 2001</u>	<u>DEO</u>
Balance, January 1, 2003	\$ 8,590,000	\$1,445,730	\$ 918,312
Proceeds of bonds	-	-	1,129,882
Bonds retired	<u>(370,000)</u>	<u>(13,400)</u>	<u>(79,000)</u>
Balance, December 31, 2003	<u>\$ 8,220,000</u>	<u>\$1,432,330</u>	<u>\$ 1,969,194</u>

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 2003

9. LONG-TERM DEBT: (CONTINUED)

Bonds and notes payable at December 31, 2003 are comprised of the following:

General Obligation Bonds:

\$9,900,000 bonds dated October 1, 1997, for the purpose of constructing a waterworks system with the first principal payment of \$100,000 due on April 1, 1998; principal payments thereafter ranging from \$265,000 to \$480,000; interest payments are due on April 1, and October 1, annually with interest rates varying from 8% to 4.5% over the life of the bond issue.

\$ 8,220,000

Water Revenue Bonds - 2001:

Dated August 7, 2001, due in one installment of \$68,875 on August 7, 2002 and monthly payments of \$6,815 from September 7, 2002 to August 7, 2041 bearing interest at 4.75%

\$ 1,432,330

Water Revenue Bonds - 2001 DEQ:

Dated February 19, 2002, first principal payment of \$79,000 due on August 7, 2003; principal payments thereafter ranging from \$83,000 to 166,000; interest payments are due in February and August, annually, bearing interest at 3.45%.

\$1,969,194

The annual requirements to amortize all debt outstanding as of December 31, 2003 including interest payments of \$5,819,054 are as follows:

Year Ending <u>December 31</u>	<u>Total</u>
2003	\$ 1,024,155
2004	1,029,526
2005	1,068,299
2005	1,071,518
2007	1,032,853
2008 - 2022	<u>12,214,227</u>
Totals	<u>\$ 17,440,578</u>

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 2003

10. RETIREMENT PLAN:

The District is a member of the Parochial Employees Retirement System. Under this System, eligible employees contribute 9.5% of their wages and the District contributes 7.75% of eligible wages. District contributions under this plan for the year ended December 31, 2003 were \$11,351 based on eligible salaries of \$146,465.

11. CONTINGENT LIABILITIES:

The District is the defendant in several lawsuits. Neither of the cases have been concluded and the resultant future recovery or liability, if any, can be determined; no allowance therefore has been made in these financial statements.

12. SUBSEQUENT EVENTS:

The lack of segregation of duties regarding cash collections from water customers resulted in the misappropriation of funds subsequent to the year ended December 31, 2003. The amount of the misappropriation has yet to be determined because all pertinent records, such as receipt books, have yet to be located. In addition to the misappropriation of cash collections from water customers, cellular phones belonging to the District were used by an employee for personal purposes. The District Attorney and the Legislative Auditor have been notified of these situations.

13: GOING CONCERN CONDITIONS:

The following conditions indicate that the District may not be able to continue as a going concern:

Use of Restricted Monies for Unintended Purposes:

The District maintains a Sinking Fund under the terms of the General Obligation Bond indenture. Monies in this fund are restricted to the payment of interest and principal on the general obligation bonds only, and cannot be used for any other purpose. On July 21, 2004 the District transferred \$123,575.96 from this account to the operations and maintenance checking account. The District then made a payment of \$123,575.96 to the Department of Health and Hospitals on July 21, 2004 for interest and principal on the Water Revenue Bond - 2001 DEQ. The use of these funds is restricted for general obligation debt only.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 2003

13. GOING CONCERN CONDITIONS: (Continued)

Lack of Compliance with Bond Indentures:

The District has not established and funded restricted accounts required by the \$1,450,000 Water Bond Indenture or the Drinking Water Revolving Loan Fund (2001 DEQ) Bond Indenture.

Lack of Properly Certified Operators at the Water Plant:

A Class 1 Survey of the District's water system was conducted by the Department of Health and Hospitals on June 14, 2004. The result of this survey revealed the District does not have the required number of certified operators at the Water Treatment Plant. Systems operating multiple shifts are required to have a minimum of one properly certified operator present on each shift. The District has one Class 3 certified operator. The Department of Health and Hospitals has set a deadline of September 30, 2004 for the District to come into compliance. Failure to do so could result in administrative fines.

Projected Loss for year ending December 31, 2004:

The District anticipates the revenue generated during the year ending December 31, 2004 will not be sufficient to fund operating expenses and debt service requirements for the year.

Management's plans for dealing with the adverse effect of the above stated conditions are: (1) seeking additional funding sources and (2) raising water rates.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2003

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Program Award Amount</u>	<u>Receipts/ Revenue Recognized</u>	<u>Disbursements Expenditures</u>
Environmental Protection Agency				
Drinking Water Revolving Loan Fund	66.486	\$2,350,000	<u>\$ 1,129,882</u>	<u>\$1,129,882</u>

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Corrective Action Taken on Prior Year Findings

For the Year Ended December 31, 2003

Prior Year Finding:

The segregation of duties is inadequate to provide effective internal control.

Corrective Action Taken:

No action was recommended and none was taken.

Management Letter Comment #1

The District should engage a consultant familiar with software utilized by the District to train District staff to adjust general ledger balances during the year and at year end. This would result in the accounting records being ready for audit at year end with no basic accounting services required by the auditor to effect the audited financial statements.

Corrective Action Taken:

Resolved.

Management Letter Comment #2

The District should establish and maintain the restricted accounts required by the \$1,450,000 Water Revenue Bond Indenture.

Corrective Action Taken:

None.

Marsha O. Millican

CERTIFIED PUBLIC ACCOUNTANT

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

Board of Directors
Waterworks District No. 1
of the Parish of DeSoto
Mansfield, Louisiana

I have audited the financial statements of Waterworks District No. 1 of the Parish of DeSoto as of and for the year ended December 31, 2003, and have issued my report thereon dated August 19, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America 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. 1 of the Parish of DeSoto's 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 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 findings #3, #4, and #5.

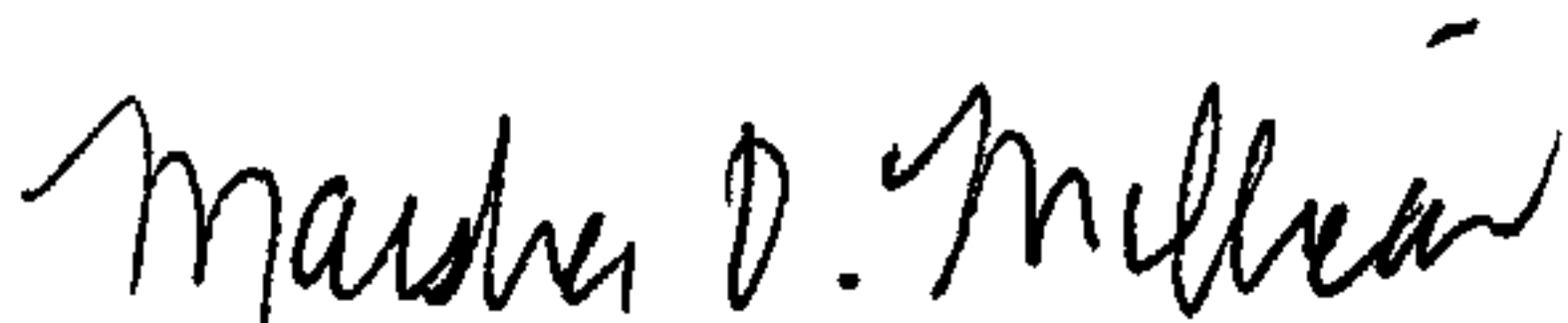
Internal Control Over Financial Reporting

In planning and performing my audit, I considered Waterworks District No. 1 of the Parish of DeSoto's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal

control over financial reporting that, in my judgment, could adversely affect Waterworks District No. 1 of the Parish of DeSoto's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings #1, #2, #6, and #7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider findings #1 and #2 to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Commissioners, and federal and state awarding agencies and is not intended to be, and should not be, used by anyone other than the specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Certified Public Accountant
August 19, 2004

Marsha O. Millican

CERTIFIED PUBLIC ACCOUNTANT

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

Board of Directors
Waterworks District No. 1 of the Parish of DeSoto
Mansfield, Louisiana

Compliance

I have audited the compliance of Waterworks District No.1 of the Parish of DeSoto with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2003. Waterworks District No. 1 of the Parish of DeSoto's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Waterworks District No. 1 of the Parish of DeSoto.'s management. My responsibility is to express an opinion on Waterworks's District No. 1 of the Parish of DeSoto's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Waterworks District No. 1 of the Parish of DeSoto's 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 Waterworks District No. 1 of the Parish of DeSoto's compliance with those requirements.

However, the results of my auditing procedures disclosed an instance of noncompliance with those requirements that are required

to be reported in accordance with OMB Circular A-133 and which is listed in the accompanying schedule of findings and questioned costs as finding # 4.

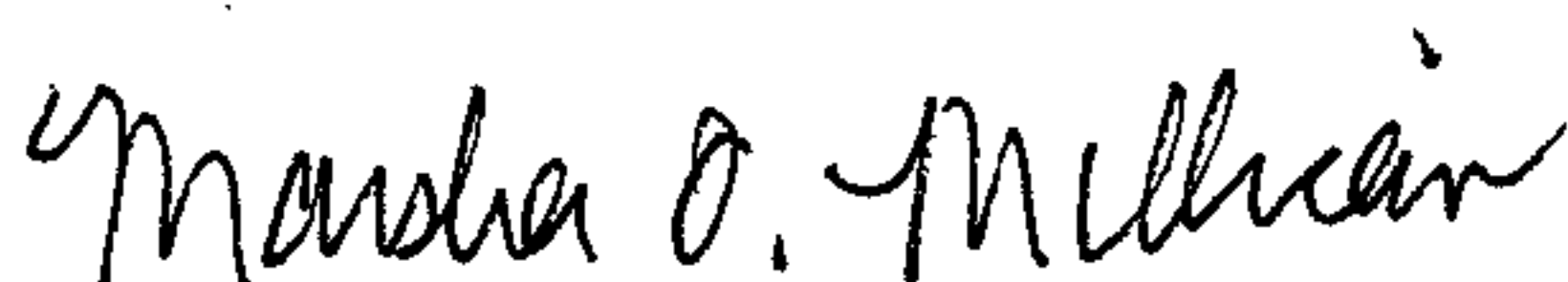
Internal Control Over Compliance

The management of Waterworks District No. 1 of the Parish of DeSoto 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 Waterworks District No. 1 of the Parish of DeSoto's 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.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect Waterworks District No. 1 of the Parish of DeSoto's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the schedule of findings and questioned costs as findings # 1 and #2.

A material weakness is a condition in which the design or operation of one or more on 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. However, of the reportable conditions described above, I consider findings # 1 and # 2 to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Commissioners and applicable federal and state awarding agencies and is not intended to be, and should not be, used by anyone other than the specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Certified Public Accountant
August 19, 2004

Waterworks District No. 1

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

Summary of Audit Results

The auditor's report expresses an unqualified opinion on the component unit financial statements. The results of audit procedures identified conditions and events, that, when considered in the aggregate, indicate there is a substantial doubt about the District's ability to continue as a going concern.

The audit disclosed four reportable conditions in internal control which are described below as findings #1, 2, 6, and 7. The audit disclosed two reportable conditions involving internal control that is also considered to be a material weakness and is described in the schedule of findings below as findings #1 and # 2.

The audit disclosed three instances of noncompliance that are required to be reported under Government Auditing Standards, and are described in the schedule of findings as findings #3, #4, and #5.

The audit disclosed an instance on noncompliance for the major federal award program for Waterworks District No. 1 of the Parish of DeSoto and is described below as finding #4.

The program tested as a major program is as follows:

66.486 Drinking Water Revolving Loan Fund

The threshold for distinguishing Type A and B programs was \$300,000.

Waterworks District # 1 of the Parish of DeSoto was not determined to be a low risk auditee.

FINDING #1:

Condition: The segregation of duties is inadequate to provide effective internal control.

Criteria: Employees perform interrelated duties. The employee who receives payments for water bills also posts to customers accounts, reconciles the bank statements, and prepares the deposit slip for the bank. The District does not utilize daily balance sheets to

(Continued)

Waterworks District No. 1

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

FINDING #1: (Continued)

reconcile monies collected to postings to customers accounts and to bank deposit records. The utility billing system is not integrated with the District's accounting software. This condition resulted in the District's filing its annual financial reports with the Legislative Auditor after the deadline.

Recommendation: I recommend that duties be segregated whenever possible. I recommend the District institute daily balance reports that reconcile receipts, posting to customers accounts, and bank deposits. I also recommend the utility billing system be integrated with the District's accounting software.

Management's Response: We agree with the finding.

Management's Corrective Action Plan:

We have instituted daily balance reports and have hired an outside accountant to review monthly bank statements and financial reports. We will file our annual financial statements with the Legislative Auditor within the time frame required by law in the future.

FINDING #2:

Condition: The District is not adequately managing delinquent utility receivables.

Criteria: Delinquent utility receivables 90 days past due increased from \$3,831.29 at December 31, 2002 to \$9,094.87 at December 31, 2003. The failure to adequately manage delinquent receivables results in lost revenue to the District.

Recommendation: I recommend the District institute policies and procedures for collecting delinquent utility receivables.

Management's Response: We agree with the finding.

Management's Corrective Action Plan: We have instituted procedures to collect delinquent utility receivables.

(Continued)

Waterworks District No. 1

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

FINDING #3:

Condition: The District is not in compliance with the requirements of the \$1,450,000 Water Bond Indenture.

Condition: The \$1,450,000 Water Bond Indenture requires the establishment of various restricted accounts: sinking fund, reserve fund and contingency fund. The indenture requires monthly deposits to the reserve and contingency fund. These funds have not been established in accordance with the Indenture requirements and required monthly deposits were not made.

Recommendation: I recommend the restricted accounts be established and required deposits be made in order to be in compliance with the requirements of the Water Bond Indenture.

Management's Response: We agree with the finding.

Management's Corrective Action Plan: We will comply with the requirements of the Water Bond Indenture.

FINDING #4:

Condition: The District is not in compliance with the requirements of the Drinking Water Revolving Loan Fund (2001 DEQ) Bond Indenture.

Criteria: The Drinking Water Revolving Loan Fund Bond Indenture requires the establishment of various restricted accounts: waterworks revenue fund, water revenue bond and interest sinking fund, reserve fund and depreciation and contingency fund. The indenture requires monthly deposits to the revenue bond and interest sinking fund, reserve fund, and depreciation and contingency fund. These funds have not been established in accordance with the Indenture requirements and required monthly deposits were not made.

Recommendation: I recommend the restricted accounts be established and required deposits be made in order to be in compliance with the requirements of the 2001 DEQ Water Bond Indenture.

(Continued)

Waterworks District No. 1

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

FINDING #4: (Continued)

Management's Response: We agree with the finding.

Management's Corrective Action Plan: We will comply with the requirements of the Drinking Water Revolving Loan Fund Bond Indenture.

FINDING #5:

Condition: The District is in violation of Article VII, Section 14A of the Louisiana Constitution which states "the funds, credit, property or thing of value of the state or any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private".

Criteria: The District advanced wages totaling \$400 to an employee in violation of state law. These advances were not repaid. The District paid bonuses to employees totaling \$900 during the year ended December 31, 2003 in violation of state law.

Recommendation: I recommend the District comply with Article VII, Section 14A of the Louisiana Constitution.

Management's Response: We agree with the finding.

Management's Corrective Action Plan: We will not advance wages or pay bonuses in the future.

FINDING #6:

Condition: Documentation was inadequate for cash disbursements totaling \$4,044.95. The majority of these invoices were charges to the District's credit card for which no documentation of the business purpose was present.

Criteria: Without adequate documentation, it could not be determined if these expenditures were proper business expenditures of the District.

(Continued)

Waterworks District No. 1

Schedule of Findings and Questioned Costs

Year Ended December 31, 2003

FINDING #6: (Continued)

Recommendation: I recommend all disbursements be supported by appropriate documentation.

Management's Response: We agree with the finding.

Management's Corrective Action Plan: In the future, disbursements will not be made unless supported by adequate documentation.

FINDING #7:

Condition: Personnel files relating to payroll do not contain adequate information.

Criteria: Personnel files do not contain information regarding withholding, current pay rates, or information regarding compensated absences.

Recommendation: I recommend personnel files be updated to contain the following: job description, rate of pay, unused sick pay and vacation time earned, completed Forms I-9, W-4, L-4 and health insurance withholdings, and personnel evaluations.

Management's Response: We agree with the finding.

Management's Corrective Action Plan: We will update personnel files in accordance with the recommendation.