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WATERWORKS DISTRICT NO 1 OF THE PARISH OF DESOTOMANSFIELD, LOUISIANA

## FINANCIAL STATEMENTS

December 31, 2004

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 9/7/05

Marsha O. Millican  
Certified Public Accountant  
Shreveport, Louisiana

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

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December 31, 2004

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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 basic financial statements of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana, a component unit of DeSoto Parish Police Jury, as of and for the year ended December 31, 2004 as listed in the table of contents. 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 financial statements based on my audit.

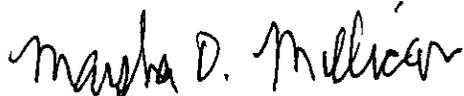
I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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, 2004, and the changes in its net assets and cash flows the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, Waterworks District No.1 of the Parish of DeSoto adopted the provisions of the Governmental Accounting standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments' Governmental Accounting standards Board Statement No, 38, Certain Financial Statement Note Disclosures; and Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements for the year ended December 31, 2004.

The Management's Discussion and Analysis presented on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, I have also issued a report dated May 12, 2005 on my consideration of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana's internal control over financial reporting and on 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 Governmental Auditing Standards and should be read in conjunction with this report in considering the results of my audit.



Certified Public Accountant  
May 12, 2005

# *Waterworks District No. 1*

of DeSoto Parish

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302 North Washington Avenue  
Mansfield, LA 71052

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Waterworks District No. 1 of the Parish of DeSoto's annual financial report presents our discussion and analysis of the District's financial performance during the year ended December 31, 2004. Please read it in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments* issued in June 1999.

### FINANCIAL HIGHLIGHTS

The District had total assets of \$16,289,277 at year end which represents a decrease from the prior year of \$377,657. This majority of this decrease resulted from depreciation expense for the current year of \$417,147.

The District's net assets increased \$24,266 for the current year versus a decrease of \$37,880 for the prior year.

During the year ended December 31, 2004, the District reduced its long-term debt by \$406,746.

### OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of the following - Management's Discussion and Analysis (this section), the basic financial statements, and notes to financial statements. These components are described below:

#### **Basic Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and Cash Flows provide information about the activities of the District as a whole and present a longer-term view of the District's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report the District's net assets and changes in them. You can think of the District's net assets, the difference between assets and liabilities, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

**FINANCIAL ANALYSIS OF THE ENTITY**

**Net Assets**

Net assets may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$4,842,307 as of December 31, 2004.

The District's major assets are its fixed assets of \$14,584,307 representing its investment in its water distribution system and water treatment plant. The District owed \$11,214,778 at year end on the debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the citizens of the District; consequently, these assets are not available for future spending.

\$660,244 (14%) of the District's net assets is restricted for debt service. These funds legally must be used to pay interest and principal on the outstanding general obligation bonds.

**Waterworks District No. 1 of the Parish of DeSoto  
Statement of Net Assets  
December 31, 2004**

Current Assets	\$ 954,673
Other Assets	750,297
Capital Assets, Net	<u>14,584,307</u>
Total Assets	<u>\$16,289,277</u>
Accounts Payable and Accrued Expenses	\$ 34,786
Current Portion of Long -Term Debt	526,417
Long-Term Debt	10,688,341
Other Liabilities	<u>197,426</u>
Total Liabilities	<u>11,446,970</u>
Net Assets	
Invested in capital assets, net of related debt	3,369,549
Reserved for Bond Retirement	600,244
Reserved for Customer Deposits	5,575
Unreserved	<u>866,939</u>
Total Net Assets	<u>4,842,307</u>
Total Liabilities and Net Assets	<u>\$16,289,277</u>

Net Assets of the District increased by \$24,266 from the previous fiscal year. The increase is the result of operating and other revenues exceeding operating and other expenses during the fiscal year ended 2004.

Waterworks District No. 1 of the Parish of DeSoto  
Statement of Changes in Net Assets  
For the Year Ended December 31, 2004

Operating Revenues	\$ 786,301
Operating Expenses	<u>1,027,636</u>
Operating Loss	( 241,335)
Non operating Income/Expense	<u>265,601</u>
Changes in Net Assets	<u>\$ 24,266</u>

The District's total operating revenues increased by \$53,403 or 7% from the previous year. The total operating expenses decreased by \$44,248 or 4% from the previous year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of 2004, the District had \$14,584,307, net of depreciation, invested in its capital assets. This amount represents a net decrease of \$303,589 as a result of additions of \$ 113,558 and depreciation expense of \$417,147.

Capital Assets at Year End  
(Net of Depreciation)

Office Furniture	\$ 3,399
Machinery & Equipment	141,158
Water System	<u>15,898,019</u>
Total	16,042,576
Less: Accumulated Depreciation	<u>1,458,269</u>
Net fixed assets	<u>\$14,584,307</u>

Debt

The District had \$11,214,778 in long-term debt as follows:

	General Obligation Bonds	Water Revenue Bonds 2001	DEO
Balance, January 1, 2004	\$ 8,220,000	\$1,432,330	\$1,969,194
Proceeds	-	-	85,284
Bonds retired	<u>( 395,000)</u>	<u>( 14,030)</u>	<u>( 83,000)</u>
Balance, December 31, 2004	<u>\$ 7,825,000</u>	<u>\$1,418,300</u>	<u>\$ 1,971,478</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Management of the District considers the following factors and indicators when setting next year's rates and fees. These factors and indicators include:

- Long-term debt.
- Cost of operations.
- Number of customers.

The District has hired a new manager after year end who is giving greater attention to financial matters and issues. The District is in negotiations with two smaller systems in DeSoto Parish to take over their operations.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the of the Waterworks District No. 1 of the Parish of DeSoto's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Robert Wells, 302 N Washington, Mansfield, Louisiana 71052, or by calling (318) 872-0004.

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

## Statement of Net Assets

December 31, 2004AssetsCurrent Assets

Cash	\$ 27,973
Taxes Receivable	909,089
Accounts Receivable	4,329
Prepaid Insurance	5,445
Total Current Assets	<u>946,836</u>

Other AssetsRestricted Assets

Cash	6,947
Investments	668,559
Deposits	800
Fixed Assets (Net)	14,584,307
Bond Issuance Costs	81,828
Total Other Assets	<u>15,342,441</u>

Total Assets

\$16,289,277Liabilities and Net AssetsLiabilitiesCurrent Liabilities

Accounts Payable and Accrued Expenses	\$ 34,786
Current Portion of Long-Term Debt	526,417
Total Current Liabilities	<u>561,203</u>

Long-Term Liabilities

Customer Deposits Payable	61,850
Long-Term Debt, Net of Current Portion	10,688,341
Accrued Interest Payable	135,576
Total Long-Term Liabilities	<u>10,885,767</u>

Total Liabilities

11,446,970Net Assets:

Invested in Capital Assets, net of related debt	3,369,549
Reserved for Bond Retirement	600,244
Reserved for Customer Deposits	5,575
Unreserved	866,939
Total Net Assets	<u>4,842,307</u>

Total Liabilities and Net Assets

\$16,289,277

See accompanying notes to financial statements.

Exhibit 2

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Statement of Revenues, Expenses, and Changes in  
Net Assets

Year Ended December 31, 2004

Revenues:	
Ad Valorem Taxes	\$ 157,693
Charges for Services	617,225
Miscellaneous Revenues	<u>11,383</u>
Total Revenues	<u>786,301</u>
Operating Expenses:	
Personal Services	203,335
Utilities	60,467
Repair and Maintenance	175,472
Other Supplies and Expense	141,758
Insurance	29,457
Depreciation	<u>417,147</u>
Total Expenses	<u>1,027,636</u>
Operating Income	( 241,335)
Non-Operating Revenues (Expenses):	
Interest Income	11,457
Ad Valorem Taxes	810,329
Interest Expense	<u>( 556,185)</u>
Total Non-Operating Revenues (Expenses)	<u>265,601</u>
Change in Net Assets	24,266
Net Assets - Beginning of Year, as Previously Reported	4,812,841
Prior Period Adjustment	<u>5,200</u>
Net Assets - Beginning of Year, Restated	<u>4,818,041</u>
Net Assets - End of Year	<u>\$4,842,307</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, 2004

Cash flows from operating activities:	
Ad valorem taxes received	\$ 161,344
Cash received from customers	612,865
Cash payments to suppliers	( 606,825)
Other operating income	9,699
Net cash provided by operating activities	<u>177,083</u>
Cash flows from capital and related financing activities:	
Fixed Asset Purchases	( 113,558)
Ad Valorem Debt Service Proceeds	806,089
Interest paid on long term debt	( 559,879)
Proceeds of long term debt	85,284
Principal payments on long term debt	( 492,030)
Net cash provided by capital and related financing activities	<u>( 274,094)</u>
Cash flows from investing activities:	
Investments in LAMP investments	( 905,378)
Withdrawals from LAMP investments	965,388
Interest received on investments	( 11,457)
Net cash provided by investing activities	<u>48,553</u>
Net decrease in cash	( 48,458)
Cash, beginning of year (including \$19,556 in restricted assets)	<u>83,378</u>
Cash, end of year (including \$6,947 in restricted assets)	<u>\$ 34,920</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$( 241,335)
Adjustments to reconcile net income to net cash provided by operating activities:	
Prior period adjustment	( 5,200)
Depreciation	417,147
Amortization	4,490
Changes in assets and liabilities:	
Increase in taxes receivable	( 3,608)
Decrease in accounts receivable	4,360
Increase in prepaid insurance	( 5,445)
Decrease in other receivables	3,337
Decrease in customer deposits	( 1,405)
Increase in accounts payable	<u>4,742</u>
Net cash provided by operating activities	<u>\$ 177,083</u>

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements

December 31, 2004

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, State of Louisiana 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 of DeSoto have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The accompanying component unit financial statements have been prepared in conformity with GASB Statement No. 34, Basic financial statements - and Management's Discussion and Analysis for State and Local Governments, issued in June 1999. 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, 2004, all cash balances were fully insured by FDIC insurance.

**3. PER DIEM PAID TO COMMISSIONERS:**

No per diem was paid to commissioners for the year ended December 31, 2004.

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements

December 31, 2004

**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, 2004, 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, 2004 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, 2004 funds on deposit with LAMP (at cost) totaled \$668,559.

**6. ACCOUNTS RECEIVABLE:**

Accounts receivable for customer water bills at December 31, 2004 totaled \$22,662 less an allowance for doubtful accounts of \$18,333.

**7. RESTRICTED ASSETS:**

Restricted assets consist of amounts restricted as follows:

Customer Deposits	\$ 5,575
Revenue Bond Indenture	<u>600,244</u>
Total	<u>\$ 605,819</u>

**8. FIXED ASSETS:**

A summary of fixed assets follows:

Office Furniture	\$ 3,399
Machinery & Equipment	141,158
Water System	<u>15,898,019</u>
	16,042,576
Less: Accumulated Depreciation	<u>1,458,269</u>
Net fixed assets	<u>\$14,584,307</u>

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements

December 31, 2004

9. LONG-TERM DEBT:

The following is a summary of debt transactions of Waterworks District No. 1 of the Parish of DeSoto for the year ended December 31, 2004:

	<u>General Obligation Bonds</u>	<u>Water Revenue Bonds 2001</u>	<u>DEQ</u>	<u>Total</u>
Balance, January 1, 2004	\$ 8,220,000	\$1,432,330	\$1,969,194	\$11,621,524
Proceeds of debt	-	-	85,284	85,284
Bonds retired	<u>( 395,000)</u>	<u>( 14,030)</u>	<u>( 83,000)</u>	<u>( 492,030)</u>
Balance, December 31, 2004	<u>\$ 7,825,000</u>	<u>\$1,418,300</u>	<u>\$ 1,971,478</u>	<u>\$11,214,778</u>

Bonds and notes payable at December 31, 2004 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.

\$ 7,825,000

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%

\$ 1,418,300

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%.

\$ 1,971,478

The annual requirements to amortize all debt outstanding as of December 31, 2004 including interest payments of \$5,262,869 are as follows:

<u>Year Ending December 31</u>	<u>Total</u>
2004	\$ 1,029,526
2005	1,068,299
2005	1,071,518
2007	1,032,853
2008	1,090,808
2009 - 2022	<u>11,184,643</u>
Totals	<u>\$ 16,477,647</u>

(Continued)

WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements

December 31, 2004

**10. RETIREMENT PLAN:**

The District is a member of the Parochial Employees Retirement System. Under this System, eligible employees contributes 9.5% of their wage and the District contributes 11.75% of eligible wages. District contributions under this plan for the year ended December 31, 2004 were \$15,935 based on eligible salaries of \$135,614.

**11. CONTINGENT LIABILITIES:**

The District is the defendant in one lawsuit. The case has not been concluded and the resultant future recovery or liability, if any, cannot be determined; no allowance therefore has been made in these financial statements.

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 4 certified operator. Failure to have the number of certified operators could result in administrative fines. At December 31, 2004, the District did not have the required number of certified operators at the Water Treatment Plant, and no administrative fines had been levied by the State.

**12. PRIOR PERIOD ADJUSTMENT:**

Net assets at the beginning of the year was increased by \$5,200 to adjust for prepaid insurance at December 31, 2003 that was incorrectly charged to expense for the year ended December 31, 2003.

Waterworks District No. 1 of the Parish of DeSoto

Corrective Action Taken on Prior Year Findings

Year Ended December 31, 2004

**FINDING #2003-1:**

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

Status: Unresolved.

**FINDING #2003-2:**

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

Status: Unresolved.

**FINDING #2003-3:**

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

Status: Unresolved.

**FINDING #2003-4:**

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

Status: Unresolved.

**FINDING #2003-5:**

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".

Status: Resolved.

**FINDING #2003-6:**

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.

Status: Resolved.

**FINDING # 2003-7:**

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

Status: Resolved.



**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 basic financial statements of Waterworks District No. 1 of the Parish of DeSoto as of and for the year ended December 31, 2004, and have issued my report thereon dated May 12, 2005. 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, and #2.

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.

*Martha O. Mellican*

Certified Public Accountant  
May 12, 2005

Waterworks District No. 1 of the Parish of DeSoto

Schedule of Findings

Year Ended December 31, 2004

FINDING #2004-1:

Condition: The segregation of duties is inadequate to provide effective internal control. This is a repeat finding.

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 utility billing system is not integrated with the District's accounting software.

Recommendation: I recommend that duties be segregated whenever possible. 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 hired an outside accountant to review monthly bank statements and financial reports. We have adopted a policy of accepting only checks or money orders for utility payments. Cash payments are prohibited.

FINDING #2004-2:

Condition: The District is not adequately managing delinquent utility receivables. This is a repeat finding.

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 and \$18,332.93 at December 31, 2004. 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 raised the amount of customer deposits, and instituted more stringent collection procedures to collect delinquent utility receivables.

(Continued)

Waterworks District No. 1 of the Parish of DeSoto

Schedule of Findings

Year Ended December 31, 2004

**FINDING #2004-3:**

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

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 accounts have not been funded in accordance with the Indenture requirements.

Recommendation: I recommend the restricted accounts be funded 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 established the required accounts in 2004 and funded them since January, 2005.

**FINDING #2004-4:**

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

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 accounts have not been funded in accordance with the Indenture requirements.

Recommendation: I recommend the restricted accounts be funded in order to be in compliance with the requirements of the 2001 DEQ Water Bond Indenture.

Management's Response: We agree with the finding.

Management's Corrective Action Plan: We established the required accounts in 2004 and funded since in January, 2005.

(Continued)

Waterworks District No. 1 of the Parish of DeSoto

Schedule of Findings

Year Ended December 31, 2004

**FINDING #2004-5:**

Condition: The District is in violation of the General Obligation Bonds, Series 1997 Bond Indenture.

Criteria: The Bond Indenture requires that all proceeds from a 5.91 mil tax be deposited into a sinking fund. The Indenture also states that only principal and interest on the general obligation funds be paid from the sinking fund. On July 21, 2004, the District transferred \$123,575.56 from the sinking fund to another account and made a payment of \$123,575.56 to the Department of Health and Hospitals for interest and principal on the Water Revenue Bonds -2001 DEQ.

Recommendation: I recommend the District comply with the requirements of the General Obligation Bonds, Series 1997 Bond Indenture.

Management's Response: We agree with the finding.

Management's Corrective Action Plan: We repaid these funds on August 27, 2004. In the future, we will comply with the General Obligation Bonds, Series 1997 Bond Indenture.