

CADDO SEWERAGE DISTRICT NO. 7

SHREVEPORT, LOUISIANA

DECEMBER 31, 2004 AND 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 6/8/05

CADDO SEWERAGE DISTRICT NO. 7

SHREVEPORT, LOUISIANA

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Independent Auditor's Report

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

I have audited the accompanying general purpose financial statements of Caddo Sewerage District No. 7, a component unit of Caddo Parish, Louisiana, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with 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. 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 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Caddo Parish Sewerage District No. 7 as of December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 27, 2005 on my consideration of Caddo Sewerage District No. 7'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.

Richard C. McCallister
April 27, 2005

REQUIRED SUPPLEMENTAL INFORMATION

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

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of the Caddo Parish Sewerage District No. 7 financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the District's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

The District's net assets increased by \$50,486 or 3.6%.

The District's total revenues were \$636,975 in 2004 compared to \$596,570 in 2003.

During the year ended December 31, 2004 the District had total expenses, excluding depreciation, of \$281,758 compared to \$263,948 in 2003.

USING THIS ANNUAL REPORT

This annual report consists of three parts; management's discussion and analysis, the basic financial statements, and required supplemental information. The statement of net assets provides long-term and short-term information about the District's financial status. The statements of revenue, expenses, and changes in net assets and statements of cash flows provide historical data on the District's business-like activities. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Caddo Parish Sewerage District No. 7 is a component unit of the Parish of Caddo, Louisiana because the Parish must approve all officials appointed to the District's Board of Commissioners. The accompanying financial statements present information only on the funds maintained by the District.

FINANCIAL ANALYSIS OF THE DISTRICT

Net Assets

The following table summarizes the financial status of the District:

Net Assets			
(in thousands of dollars)			
	2004	2003	% Change
Current and other assets	1,562	1,518	2.90%
Capital assets	3,468	3,598	-3.61%
Total assets	5,030	5,116	-1.68%
Long-term debt outstanding	3,316	3,460	-4.16%
Other liabilities	265	258	2.71%
Total liabilities	3,581	3,718	-3.68%
Investment in capital assets	300	282	6.38%
Restricted	834	818	1.96%
Unrestricted	315	298	5.70%
Total net assets	1,449	1,398	3.65%

Increases or decreases in the District's net assets are one indicator of whether its financial position is improving or deteriorating. The above changes reflect no substantial change in the District's financial position.

Changes in Net Assets

The following table summarizes the change in District's net assets:

Change in Net Assets (in thousands of dollars)			
	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Revenues			
Fees and charges for service	637	597	6.70%
Property taxes	70	56	25.00%
Interest income	10	12	-16.67%
Total revenues	<u>717</u>	<u>665</u>	<u>7.82%</u>
Expenses			
Sewer operations	284	266	6.77%
Depreciation	184	180	2.22%
Interest expenses	199	205	-2.93%
Total expenses	<u>667</u>	<u>651</u>	<u>2.46%</u>
Change in net assets	<u><u>50</u></u>	<u><u>14</u></u>	<u><u>257.14%</u></u>

The increase in total expenses is primarily attributable to additional utilities and depreciation as result of 2003 treatment facility improvements and an increase in system maintenance costs. A 10% rate increase was implemented July 1, 2003 which offsets these additional costs. The Board is continuing to review fluctuations and is charged with maintaining a rate for its customer services that will cover the operations and debt service.

CAPITAL ASSETS

At the end of 2004, the District had invested \$5,849 thousand in capital assets, including land, sewer lines, treatment facilities, a vehicle, and equipment. This amount represents a net increase of \$48 thousand, or 1%, over last year.

Capital Assets (Net of depreciation, in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Land	38	38	0.00%
Sewer system	3,419	3,547	-3.61%
Machinery and equipment	11	13	-15.38%
Total	<u><u>3,468</u></u>	<u><u>3,598</u></u>	<u><u>-3.61%</u></u>

\$71 thousand in system expansion was completed during 2004. There are \$186 thousand of funds set aside for smaller projects that will benefit the community in the future. Plans are in development to improve and extend the system at an estimated cost of \$269,000 in 2005.

LONG-TERM DEBT

At year-end the District had \$3,316 thousand in revenue and general obligation bonds outstanding, a decrease of 4.2% over last year, as shown in the following table.

Outstanding Bonds Payable (in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>% Change</u>
General obligation bonds	379	415	-8.67%
Revenue bonds	<u>2,937</u>	<u>3,045</u>	<u>-3.55%</u>
Total	<u>3,316</u>	<u>3,460</u>	<u>-4.16%</u>

This financial report is designed to provide the constituents and taxpayers with a general overview of the finances for the funds maintained by the Caddo Sewerage District No. 7 and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's office at 4859 North Market, Suite 4, Shreveport, LA 71107.

FINANCIAL STATEMENTS

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF NET ASSETS
DECEMBER 31, 2004 AND 2003

ASSETS	<u>2004</u>	<u>2003</u>
<u>Current Assets</u>		
Cash and cash equivalents	271,800	253,160
Accounts receivable - Note 4	54,553	57,838
Prepaid expenses	<u>22,373</u>	<u>6,792</u>
Total current assets	<u>348,726</u>	<u>317,790</u>
<u>Noncurrent Assets</u>		
<i>Restricted cash and cash equivalents</i>		
Revenue sinking fund	72,913	71,931
Reserve sinking fund	266,030	265,291
Depreciation and contingency fund	257,032	245,645
Construction fund	185,814	185,696
Customer deposits and permits	5,705	5,787
Ad Valorem tax fund	46,445	49,608
DOTD sinking fund - Note 8	125,032	132,308
Certificate of deposit - customer deposits	70,000	70,000
Restricted accounts receivable - Note 2	71,083	54,949
Capital assets - Note 5	3,467,620	3,597,830
Deferred finance charges	<u>113,496</u>	<u>119,655</u>
Total other assets	4,681,170	4,798,700
 Total assets	 <u>5,029,896</u>	 <u>5,116,490</u>

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

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF NET ASSETS
DECEMBER 31, 2004 AND 2003

LIABILITIES	<u>2004</u>	<u>2003</u>
<u>Current Liabilities (Payable from current assets)</u>		
Accounts payable	12,495	3,877
Total	<u>12,495</u>	<u>3,877</u>
<u>Current Liabilities (Payable from restricted assets)</u>		
Accrued interest - revenue bonds	32,443	33,507
Revenue bonds payable	109,500	108,500
Customer deposits and permits held	75,705	75,787
Accrued interest - general obligation bonds	6,861	7,375
General obligation bonds payable	39,000	36,000
Deduction from taxes - assessor	2,302	1,840
Total	<u>265,811</u>	<u>263,009</u>
Total current liabilities	<u>278,306</u>	<u>266,886</u>
<u>Noncurrent Liabilities</u>		
Revenue bonds payable - Note 7	2,827,500	2,937,000
General obligation bonds payable - Note 7	340,000	379,000
Loans payable - Louisiana DOTD - Note 8	<u>134,892</u>	<u>134,892</u>
Total long-term liabilities	<u>3,302,392</u>	<u>3,450,892</u>
Total liabilities	<u>3,580,698</u>	<u>3,717,778</u>
NET ASSETS		
Invested in capital assets, net of related debt	300,120	281,830
Restricted	834,243	818,206
Unrestricted	<u>314,835</u>	<u>298,676</u>
Total net assets	<u>1,449,198</u>	<u>1,398,712</u>

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

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF REVENUE, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>Operating Revenues</u>		
Fees and charges for services	636,975	596,570
 <u>Operating Expenses</u>		
Personal services	85,659	86,898
Advertising, dues and subscriptions	804	329
Printing	859	955
Utilities	36,069	31,247
Communications	7,272	8,160
Rentals paid	6,300	6,300
Maintenance of property and equipment	90,010	82,056
Professional services	16,270	15,778
Insurance and surety bonds	28,074	23,279
Office expenses	3,651	4,788
Travel	4,180	4,112
Bad debts	2,610	46
Depreciation	184,264	180,482
Total operating expenses	<u>466,022</u>	<u>444,430</u>
Operating Income	<u>170,953</u>	<u>152,140</u>
 <u>Non-Operating Revenue (Expense)</u>		
Interest income	10,345	11,789
Ad Valorem taxes	70,276	57,464
Tax assessor charges	(2,302)	(1,840)
Interest and fiscal charges	(198,786)	(205,455)
Total non-operating revenue (expense)	<u>(120,467)</u>	<u>(138,042)</u>
Change in net assets	50,486	14,098
Net assets-beginning of year	<u>1,398,712</u>	<u>1,384,614</u>
Net assets-end of year	<u><u>1,449,198</u></u>	<u><u>1,398,712</u></u>

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

CADDO SEWERAGE DISTRICT NO. 7
STATEMENTS OF CASH FLOW
INCREASE (DECREASE) IN CASH, AND CASH EQUIVALENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	637,650	589,171
Cash payments to suppliers for goods and services	(200,452)	(177,099)
Cash payments for personal services	(85,659)	(86,898)
	<u>351,539</u>	<u>325,174</u>
<u>Cash Flows From Non-Capital Financing Activities</u>		
Deposits received from customers	(82)	3,615
	<u>(82)</u>	<u>3,615</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Proceeds from Ad Valorem tax collections	52,302	51,417
Acquisition and construction of capital assets	(54,054)	(99,246)
Principal paid on revenue bonds	(108,500)	(102,500)
Interest paid on revenue bonds	(172,170)	(174,787)
Principal paid on general obligation bonds	(36,000)	(32,000)
Interest paid on general obligation bonds	(22,035)	(21,996)
	<u>(340,457)</u>	<u>(379,112)</u>
<u>Cash Flows From Investing Activities</u>		
Interest on investments	10,345	11,789
	<u>21,345</u>	<u>(38,534)</u>
Cash and cash equivalents at beginning of year	<u>1,279,426</u>	<u>1,317,960</u>
Cash and cash equivalents at end of year - Note 3	<u>1,300,771</u>	<u>1,279,426</u>

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

CADDO SEWERAGE DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

INTRODUCTION

1. Caddo Sewerage District No. 7 was created by the Caddo Parish Commission and is a subdivision thereof. This report includes all funds controlled by Caddo Sewerage District No.7. The District is considered a component unit of the Caddo Parish Commission, and will be included in the Commission's financial report for 2004.
2. The District was formed to construct and operate a sewerage collection and treatment system north of Shreveport, Louisiana.
3. Its five Board members are appointed by the Caddo Parish Commission and are compensated \$60 each per meeting attended.
4. The District is located north of Shreveport, Louisiana.
5. The District serves approximately 1,750 customers.
6. The District employs two full-time and two part-time employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the Caddo Sewerage District No. 7 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 14:514 and to the guides set forth in the *Louisiana Governmental Audit Guide*, and to the AICPA Industry Audit Guide, *Audits of State and Local Governmental Units*.

B. REPORTING ENTITY

Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification) established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. For financial reporting purposes, in conformance with GASB Codification section 2100, Caddo Parish Sewerage District No. 7 includes all funds that are within its oversight responsibility. 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 Caddo Sewerage 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, net assets, 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 are included on the statement of net assets. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Enterprise funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services or goods in connection with principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District's reporting on enterprise fund activities is based on FASB Statements and interpretations issued after November 30, 1989, except where they conflict or contradict GASB pronouncements.

The Enterprise Fund uses the following practices in recording certain revenues and expenses:

Revenues

Fees and charges for services are billed at the end of the month earned and are due by the 20th of the following month. This revenue is recorded as income in the month earned.

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

Expenses

Operating expenses are recorded when incurred. Interest expense is accrued at the end of each period and included as expense.

E. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. The District considers time deposits and those investments with maturities of 90 days or less as cash equivalents. 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. PREPAID ITEMS

Items paid in the current year benefiting future periods are set up as assets.

G. RESTRICTED ASSETS

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, other funds set aside for specific purposes are also classified as restricted. The District uses restricted resources to fund appropriations before using unrestricted resources.

H. CAPITAL ASSETS

Fixed assets of the District are included on the balance sheet of the fund at cost. Interest costs incurred during construction are not capitalized. Constructed systems are being depreciated on a straight-line basis of 35 years. Existing systems purchased in 1985 for \$149,950 are being depreciated on a straight-line basis of 25 years.

I. DEFERRED FINANCE CHARGES

In conjunction with refunding bond issues, refinancing costs were incurred. These costs are amortized on a straight-line basis over the term of the new bond issues. Included in interest expense for the years ended December 31, 2004 and 2003, was amortization of these costs of \$6,160 each year.

J. COMPENSATED ABSENCES

The District has adopted a leave policy only as to vacation. The policy provides for accumulation and vesting of leave; however, no provision is made for accumulation and vesting of leave due to its small amount.

K. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

L. USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

2. LEVIED TAXES

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

	<u>2004</u>	<u>2003</u>
Assessed valuation within District – net	7,631,850	5,368,490
Millage	<u>9.5</u>	<u>10.5</u>
Taxes levied	72,507	56,372
Estimate of uncollectibles	<u>(1,424)</u>	<u>(1,424)</u>
Accounts receivable – Ad Valorem	<u><u>71,083</u></u>	<u><u>54,948</u></u>

Ad Valorem taxes are assessed to retire the general obligation bonds of the District. The District has \$117,528 in net current assets at December 31, 2004 to cover \$57,225 in 2004 maturing principal and interest. Based on the current property valuation within the District, subsequent millage requirements should approximate five.

3. CASH AND CASH EQUIVALENTS

At December 31, 2004 and 2003, the District has cash and cash equivalents (book balances) as follows:

	<u>2004</u>	<u>2003</u>
Non interest bearing demand deposits	65,932	49,608
Interest bearing demand deposits	1,164,689	1,159,668
Time deposits	70,000	70,000
Other	<u>150</u>	<u>150</u>
 Total	 <u><u>1,300,771</u></u>	 <u><u>1,279,426</u></u>

These deposits are stated at cost, which approximates market. Under state law, these deposits or the resulting bank balances must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

Cash deposits at Bank One, Louisiana are collateralized as follows at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Fair market value of securities pledged	2,546,869	829,407
Current FDIC coverage	<u>100,000</u>	<u>149,608</u>
 Total collateral	 2,646,869	 979,015
Collected cash balances	<u>949,607</u>	<u>948,413</u>
 Collateralization (shortage) excess	 <u><u>1,697,262</u></u>	 <u><u>30,602</u></u>

Cash deposits at Argent Trust totaling \$140,058 are fully collateralized by investment in U. S. Treasury obligations.

Cash deposits at Louisiana Asset Management Pool totaling \$211,423 are fully collateralized.

4. RECEIVABLES

Accounts receivable customers at December 31, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Accounts receivable – customers	59,453	60,238
Allowance for bad debts	<u>(4,900)</u>	<u>(2,400)</u>
Total accounts receivable	<u><u>54,553</u></u>	<u><u>57,838</u></u>

Provision is made for an estimate of uncollectible accounts with approved write-offs charged against that provision.

5. CAPITAL ASSETS

The following as a summary of capital assets:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>End of Year</u>
Capital assets, non-depreciable				
Land	<u>37,500</u>	<u>-</u>	<u>-</u>	<u>37,500</u>
Capital assets, depreciable				
Machinery and equipment	44,512	2,557	5,709	41,360
Sewer system	<u>5,718,771</u>	<u>51,498</u>	<u>-</u>	<u>5,770,269</u>
Total	<u>5,763,283</u>	<u>54,055</u>	<u>5,709</u>	<u>5,811,629</u>
Accumulated depreciation	<u>2,202,954</u>	<u>184,264</u>	<u>5,709</u>	<u>2,381,509</u>
Total capital assets being depreciated, net	<u>3,560,329</u>	<u>(130,209)</u>	<u>-</u>	<u>3,430,120</u>
Total capital assets	<u><u>3,597,829</u></u>	<u><u>(130,209)</u></u>	<u><u>-</u></u>	<u><u>3,467,620</u></u>

6. PENSION PLAN

The District has adopted a SIMPLE plan to benefit its employees. The plan calls for matching contributions up to 6% of gross pay in each calendar year to the SIMPLE IRA accounts of all eligible employees. Eligible employees include those that received at least \$300 in any previous year and expect to receive \$300 during any specific year. Payroll for the year ended December 31, 2004 of \$62,273 was covered by the plan. Contributions of \$3,736 were paid to the plan.

7. LONG-TERM LIABILITIES

Changes in long-term debt

The following is a summary of bond transactions of the District for the years ending December 31, 2004 and 2003:

	<u>General Obligation</u>		<u>Revenue</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Bonds payable - beginning of year	415,000	447,000	3,045,500	3,148,000
Less bonds retired	<u>36,000</u>	<u>32,000</u>	<u>108,500</u>	<u>102,500</u>
Bonds payable - end of year	379,000	415,000	2,937,000	3,045,500
Less portion classified as current	<u>39,000</u>	<u>36,000</u>	<u>109,500</u>	<u>108,500</u>
Long-term portion	<u><u>340,000</u></u>	<u><u>379,000</u></u>	<u><u>2,827,500</u></u>	<u><u>2,937,000</u></u>

Bonds payable at December 31, 2004 and 2003 are comprised of the following individual issues:

	<u>2004</u>	<u>2003</u>
General obligation bonds serviced through		
Ad Valorem tax collections:		
\$365,000 1983 bonds due in annual installments of principal and interest of approximately \$21,000 through 2023; interest at 5%	260,000	270,000
\$257,000 1998 refunding bonds due in annual installments of principal and interest of approximately \$33,300 through 2008; interest at 5%	<u>119,000</u>	<u>145,000</u>
Total general obligation bonds	<u><u>379,000</u></u>	<u><u>415,000</u></u>
Revenue bonds:		
\$520,000 1983 sewer revenue bonds due in annual installments of principal and interest of approximately \$30,000 through 2023; interest at 5%	372,000	383,000

\$1,700,000 1999 sewer revenue and refunding bonds due in annual installments of principal and interest of \$136,000; average interest at 5.5%	1,530,000	1,570,000
\$1,150,000 2002 sewer revenue refunding bonds due in annual installments of principal of \$57,500 plus interest totaling \$114,217 for 2003 and reducing thereafter; interest at 5.3%	<u>1,035,000</u>	<u>1,092,500</u>
Total revenue bonds	<u>2,937,000</u>	<u>3,045,500</u>

In accordance with R. S. 39:562, the District is legally restricted from incurring long-term bonded debt in excess of 35% of the assessed value of taxable property. At December 31, 2004, the statutory limit is \$5,499,090, and outstanding bonded debt totals \$3,316,000.

The annual requirements to amortize all bond debt outstanding at December 31, 2004, are as follows:

Year ending December 31	Obligation		Revenue	
	Principal	Interest	Principal	Interest
2005	39,000	18,225	109,500	166,786
2006	38,000	16,300	114,500	161,138
2007	42,000	14,300	115,500	155,173
2008	40,000	12,250	120,500	149,090
2009	10,000	11,000	121,500	142,694
2010-2014	55,000	47,500	680,500	610,594
2015-2019	75,000	34,250	827,500	407,571
2020-2024	80,000	10,000	847,500	148,446
Total	<u>379,000</u>	<u>163,825</u>	<u>2,937,000</u>	<u>1,941,492</u>

Rate covenant-debt service charge

In accordance with the District's bond resolution authorizing the issuance of its refunding bonds, the District, through its Board of Commissioners, covenants to fix, establish and maintain such rates and collect such fees, rents or other charges for the services and facilities of the system, and all parts thereof, and to revise the same from time to time whenever necessary, and will always provide revenues in each year sufficient to pay the reasonable and necessary expenses of operating and maintaining the system in each year, the principal and interest maturing on the Bonds and the Parity Bonds in each year, all

reserves or sinking funds or other payments required for such year by the Bond Resolution, and all other obligations or indebtedness payable out of the revenues of the system for such year, and which will provide revenues in each year after paying all reasonable and necessary expenses of operating and maintaining the system in such year, at least equal to 125% of the largest amount of principal and interest maturing in any future fiscal year on the Bonds and any Parity Bonds.

For the year ended December 31, 2004, the District's coverage was 131%. This coverage for 2004 was 124%; however, a rate increase effective July 1, 2003 assured compliance.

Flow of funds; restrictions on use-sewer revenue

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

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

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

There shall also be set aside into a "Sewer Reserve Fund" an amount equal to 5% of the principal and interest payments required during the current fiscal year until there shall have been accumulated in the Reserve Account an amount equal to the maximum principal and interest requirements in any one maturity year. This fund reached its maximum required amount during 1999. Reserve requirements do not apply to the 2003 refunding bonds.

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

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

8. LOANS PAYABLE – DOTD

The Louisiana Department of Transportation and Development (DOTD) has loaned the District \$134,892 pursuant to Act 319 of the Louisiana Legislature. The funds were used to relocate sewer lines. The Act does not have any stated repayment terms or interest rates. DOTD can demand repayment when the District permits any additions in a state maintained highway right-of-way. A separate fund called “DOTD Sinking Fund” was started during 1991 for eventual repayment of this loan if necessary. The District plans to fully fund the liability. At December 31, 2004, the account balance was \$125,032.

9. STATEMENT OF CASH FLOWS

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

	<u>2004</u>	<u>2003</u>
Operating income	170,953	152,140
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	184,264	180,482
Change in assets and liabilities:		
Accounts receivable	3,285	(7,353)
Prepaid expenses	(15,581)	(1,569)
Accounts payable	<u>8,618</u>	<u>1,474</u>
Net cash provided by operating activities	<u><u>351,539</u></u>	<u><u>325,174</u></u>

10. RISK MANAGEMENT

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

Schedules of insurance coverage in effect at December 31, 2004 is as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>	<u>Effective Dates</u>
American Alternative	Commercial Liability	1,000,000	11/04 - 11/05
State Farm	Fidelity Bond	500,000	04/04 - 04/05
American Alternative	Commercial Property	478,000	11/04 - 11/05
LA Work Comp	Workman's Comp	Statutory	02/04 - 02/05
American Alternative	Auto	1,000,000	11/04 - 11/05
American Alternative	Officers & Directors	1,000,000	11/04 - 11/05

11. LITIGATION AND CLAIMS

In the event the District permits with the DOTD for any subsequent construction, loans totaling \$134,892 at December 31, 2004 become payable on demand by the DOTD. Funds set aside in the DOTD sinking fund in the amount totaling \$125,032 through December 31, 2004, have been provided for this contingency.

SUPPLEMENTAL INFORMATION

CADDO SEWERAGE DISTRICT NO. 7
SCHEDULE OF COMPENSATION PAID BOARD MEMBERS
FOR THE YEAR ENDED DECEMBER 31, 2004

The following is a schedule of commissioners of the District and amounts paid them per diem for the year ended December 31, 2004:

<u>Commissioner</u>	<u>Per Diem</u>	<u>Term Expiration</u>
Calvin E. Millender	900	11-1-2007
R D Van Aken	900	11-1-2006
Kenneth W. Fedd	780	11-1-2005
George Wilson	840	11-1-2008
Dean Erwin	<u>780</u>	11-1-2008
Total	<u>4,200</u>	

Richard C. McCallister
Certified Public Accountant

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Member
American Institute of
Certified Public Accountants

Member
Society of Louisiana
Certified Public Accountants

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

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

I have audited the financial statements of Caddo Sewerage District No. 7, Shreveport, Louisiana, a component unit of Caddo Parish, Louisiana, as of and for the years ended December 31, 2004 and 2003 and have issued my report thereon dated April 27, 2005. I have conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

As part of obtaining reasonable assurance about whether Caddo Sewerage District No. 7 financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Caddo Sewerage District No. 7 internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure over financial reporting and its operation that I consider to be a material weakness. However, I noted other matters involving the internal control over financial reporting that I have reported in the accompanying Schedule of Findings and Questioned costs and identified as finding 2000-1.

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

Richard C. McCallister
Shreveport, Louisiana
April 27, 2005

CADDO SEWERAGE DISTRICT NO. 7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Caddo Sewerage District No. 7.
2. One reportable condition relating to the audit of the financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

2000-1 Segregation of Duties

Condition: Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the system. Currently, the general ledger accounting and bank reconciliations are maintained by outside professionals.

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

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

Recommendation: Using outside services for the general ledger accounting and bank reconciliations assists in mitigating the condition. The Board should closely monitor the situation.

CADDO SEWERAGE DISTRICT NO. 7
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2004

FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

2000-1 Segregation of Duties

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

Recommendation: None.

Current Status: Outside services are used for general ledger accounting and bank reconciliations. As to all other functions, the condition remains.

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

May 3, 2005

CORRECTIVE ACTION PLAN

Legislative Auditor
State of Louisiana
Baton Rouge, Louisiana

Farmers Home Administration
Coushatta, Louisiana

Caddo Sewerage District No. 7 respectfully submits the following corrective action plan for the year ended December 31, 2004.

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

Audit period:
December 31, 2004

The findings from the December 31, 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

2000-1 Segregation of Duties

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

Action Taken: No additional action is being taken at this time. The Board will continue to closely monitor the situation.

Very truly yours,

CADDO SEWERAGE DISTRICT NO. 7

By: _____