WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

MANSFIELD, LOUISIANA

FINANCIAL STATEMENTS

December 31, 2002

Under provisions of state law, this report is a public
document. A copy of this 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 _______________ AUG 27 2003

Marsha O. Millican
Certified Public Accountant
Shreveport, Louisiana
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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, 2002. 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, 2001, 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.

In accordance with Government Auditing Standards, I have also issued a report dated June 11, 2003, on my consideration of Waterworks District No. 1 of the Parish of DeSoto, State of Louisiana's internal control structure and its compliance with laws and regulations.

[Signature]
Certified Public Accountant
June 11, 2003
### Exhibit 1

**WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO**

**Balance Sheet**  
**December 31, 2002**

#### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$74,517</td>
</tr>
<tr>
<td>Taxes Receivable</td>
<td>914,810</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>13,171</td>
</tr>
<tr>
<td>Investments</td>
<td>753,733</td>
</tr>
<tr>
<td>Restricted Assets</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>2,700</td>
</tr>
<tr>
<td>Investments</td>
<td>76,077</td>
</tr>
<tr>
<td>Fixed Assets (Net)</td>
<td>14,457,967</td>
</tr>
<tr>
<td>Bond Issuance Costs</td>
<td>90,858</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$16,383,833</strong></td>
</tr>
</tbody>
</table>

#### Liabilities and Equity

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$26,234</td>
</tr>
<tr>
<td>Construction Payable</td>
<td>366,028</td>
</tr>
<tr>
<td>Customer Deposits Payable</td>
<td>57,950</td>
</tr>
<tr>
<td>General Obligation Bonds Payable</td>
<td>8,590,000</td>
</tr>
<tr>
<td>Water Revenue Bonds Payable - Series 2001</td>
<td>1,445,730</td>
</tr>
<tr>
<td>Water Revenue Bonds Payable - Series 2001A</td>
<td>918,314</td>
</tr>
<tr>
<td>Accrued Interest Payable</td>
<td>128,856</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>11,533,112</strong></td>
</tr>
</tbody>
</table>

**Equity**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributed Capital</td>
<td>56,875</td>
</tr>
<tr>
<td>Retained Earnings:</td>
<td></td>
</tr>
<tr>
<td>Reserved for Customer Deposits</td>
<td>3,832</td>
</tr>
<tr>
<td>Unreserved</td>
<td>4,790,014</td>
</tr>
<tr>
<td><strong>Total Retained Earnings</strong></td>
<td><strong>4,793,846</strong></td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>4,850,721</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Equity</strong></td>
<td><strong>$16,383,833</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
WATERWORKS DISTRICT NO. 1 OF LOUISIANA

Statement of Revenues, Expenses, and Changes in Retained Earnings

Year Ended December 31, 2002

Revenues:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ad valorem taxes</td>
<td>$ 984,473</td>
</tr>
<tr>
<td>Water sales</td>
<td>320,152</td>
</tr>
<tr>
<td>Meter Installation Fees</td>
<td>27,910</td>
</tr>
<tr>
<td>Service Charges</td>
<td>12,486</td>
</tr>
<tr>
<td>Fire Hydrant Fees</td>
<td>6,544</td>
</tr>
<tr>
<td>State Revenue Sharing</td>
<td>5,312</td>
</tr>
<tr>
<td>Miscellaneous revenues</td>
<td>36,010</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>1,392,887</strong></td>
</tr>
</tbody>
</table>

Operating expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative expenses</td>
<td>32,675</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>496,356</td>
</tr>
<tr>
<td>Depreciation</td>
<td>358,922</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>887,953</strong></td>
</tr>
</tbody>
</table>

Operating income          504,934

Non-operating revenues (expenses):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>23,459</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(541,110)</td>
</tr>
<tr>
<td><strong>Total non-operating</strong></td>
<td><strong>(517,651)</strong></td>
</tr>
</tbody>
</table>

Net loss                  (12,717)

Retained earnings - beginning of year 4,806,563

Retained earnings - end of year $4,793,846

See accompanying notes to financial statements.
WATERWORKS DISTRICT NO. 1 OF DESOTO

Statement of Cash Flows
Year Ended December 31, 2002

Cash flows from operating activities:
Cash received for ad valorem taxes $ 963,553
Cash received from customers 367,897
Cash payments to suppliers and employees ( 543,963)
Other operating income 41,322
Net cash provided by operating activities 828,809

Cash flows from capital and related financing activities:
Property and equipment expenditures (1,129,477)
Principal paid on general obligation bonds ( 344,270)
Interest paid on long term debt ( 557,119)
Proceeds from water revenue bonds 1,102,315
Net cash used by capital and related financing activities ( 928,551)

Cash flows from investing activities:
Investments in LAMP investments ( 982,772)
Withdrawals from LAMP investments 1,071,352
Interest received on investments ( 15,893)
Net cash used by investing activities 72,687

Net decrease in cash ( 27,055)

Cash, December 31, 2001 (including $ 21,163 in restricted accounts 104,272
Cash, December 31, 2002 (including $ 2,700 in restricted accounts) $ 77,217

Reconciliation of operating income to net cash provided by operating activities:
Operating income $ 504,934
Adjustments to reconcile net income to net cash provided by operating activities:
Depreciation 358,923
Amortization 4,490
Changes in assets and liabilities:
Increase in taxes receivable ( 20,920)
Decrease in accounts receivable 805
Decrease in accounts payable ( 28,199)
Increase in customer deposits 8,776
Net cash provided by operating activities $ 828,809

See accompanying notes to financial statements.
WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Notes to Financial Statements
December 31, 2002

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, 2002, substantially all cash balances were fully insured by FDIC insurance.

(Continued)
3. PER DIEM PAID TO COMMISSIONERS:

No per diem was paid to commissioners for the year ended December 31, 2002.

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, 2002 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, 2002 funds on deposit with LAMP (at cost) totaled $829,810.

6. ACCOUNTS RECEIVABLE:

Accounts receivable for customer water bills at December 31, 2002 totaled $17,003 less an allowance of doubtful account of $3,821.

(Continued)
7. RESTRICTED ASSETS

Restricted assets consist of amounts restricted as follows:

- Customer Deposits: $61,782
- Water Revenue Bond Indenture: 16,995

Total: $78,777

8. FIXED ASSETS:

A summary of fixed assets follows:

- Office Furniture: $3,399
- Machinery & Equipment: 124,582
- Water System: 14,994,284

Less: Accumulated Depreciation: 664,298

Net fixed assets: $14,457,967

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, 2002:

<table>
<thead>
<tr>
<th></th>
<th>General Obligation Bonds</th>
<th>Water Revenue Bonds 2001</th>
<th>DEQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, January 1, 2002</td>
<td>$8,930,000</td>
<td>$1,265,999</td>
<td>$</td>
</tr>
<tr>
<td>Proceeds of bonds</td>
<td>-</td>
<td>184,001</td>
<td>918,314</td>
</tr>
<tr>
<td>Bonds retired</td>
<td>(340,000)</td>
<td>(4,270)</td>
<td></td>
</tr>
<tr>
<td>Balance, December 31, 2002</td>
<td>$8,590,000</td>
<td>$1,445,730</td>
<td>$ 918,314</td>
</tr>
</tbody>
</table>

(Continued)
9. LONG-TERM DEBT: (CONTINUED)

Bonds and notes payable at December 31, 2002 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. $8,590,000

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% $1,445,730

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%. $918,314

The annual requirements to amortize all debt outstanding as of December 31, 2002 including interest payments of $7,506,929 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending</td>
<td></td>
</tr>
<tr>
<td>December 31</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>$1,012,155</td>
</tr>
<tr>
<td>2003</td>
<td>1,024,131</td>
</tr>
<tr>
<td>2004</td>
<td>1,029,516</td>
</tr>
<tr>
<td>2005</td>
<td>1,068,299</td>
</tr>
<tr>
<td>2006</td>
<td>1,071,518</td>
</tr>
<tr>
<td>2006 - 2022</td>
<td>13,255,354</td>
</tr>
<tr>
<td>Totals</td>
<td>$18,460,973</td>
</tr>
</tbody>
</table>

(Continued)
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, 2002 were $5,873 based on eligible salaries of $75,781.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2002

<table>
<thead>
<tr>
<th>Federal Grantor/ Pass-through Grantor/ Program Title</th>
<th>Federal CFDA Program Award Number</th>
<th>Receipts/ Revenue Recognized</th>
<th>Disbursements Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Protection Agency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drinking Water Revolving Loan Fund</td>
<td>66.468</td>
<td>$2,350,000</td>
<td>918,314</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>918,314</td>
</tr>
<tr>
<td>U.S. Department of Agriculture:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Development Loan</td>
<td>10.760</td>
<td>$1,450,000</td>
<td>184,001</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>184,001</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,102,315</td>
<td>$1,102,315</td>
<td></td>
</tr>
</tbody>
</table>
WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Corrective Action Taken on Prior Year Findings

For the Year Ended December 31, 2002

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.
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, 2002, and have issued my report thereon dated June 11, 2003. 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 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 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 a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. 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. The reportable condition is described in the accompanying schedule of findings and questioned costs as item #1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Commissioners, and federal and state cognizant agencies and is not intended to be, and should not be, used by anyone other than the specified parties.

[Signature]

Certified Public Accountant
June 11, 2003
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 programs for the year ended December 31, 2002. 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 Watertows 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.
In my opinion, Waterworks District No. 1 of the Parish of DeSoto complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2002.

**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 a certain matter involving the internal control over compliance and its operation that I consider to be a reportable condition. 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 item # 1.

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. I noted no matters involving the internal control over compliance and its operation that I consider to be material weakness.

This report is intended solely for the information of management, the Board of Commissioners and applicable federal and state cognizant agencies and is not intended to be, and should not be, used by anyone other than the specified parties.

Certified Public Accountant
WATERWORKS DISTRICT NO. 1 OF THE PARISH OF DESOTO

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2002

Summary of Audit Results

The auditor’s report expresses an unqualified opinion on the component unit financial statements.

The auditor’s report on compliance for the major federal award program for Waterworks District No. 1 of the Parish of DeSoto expresses an unqualified opinion on the District’s major federal program.

The program tested as a major program is as follows:

66.468 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/NONCOMPLIANCE

Finding #1 - Condition:
The segregation of duties is inadequate to provide effective internal control. This is a repeat finding.

Finding #1 - Criteria:
The District’s clerical employee performs related duties such as receiving customer utility payments, posting customer accounts, preparing utility billings, reconciling bank accounts and posting the District’s general ledger.

Finding #1 - Cause:
The condition is due to economic and space limitations.

Finding #1 - Recommendation:
The District should segregate duties as economic and space limitations decrease.
Management's Corrective Action Plan:
We agree with the finding. Action will be taken as economic and space limitations decrease.

QUESTIONED COSTS:
There were no questioned costs for the year ended December 31, 2002.
June 11, 2003

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

In planning and performing my audit of the component unit financial statements of Waterworks District No. 1 of the Parish of DeSoto for the year ended December 31, 2002, I considered its internal control structure 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 structure.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect my report dated June 11, 2003.

I will review the status of these comments during my next audit engagement. My comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience.

Accounting Records
The District’s accounting records require basic accounting services to reflect accurate year end balances. Examples of these services are preparation of adjusting entries required to reconcile accounts receivable billing for water revenue to the general ledger, reconcile the detail listing for customer deposits to the general ledger, and record accounts payable. These basic accounting services have historically been performed by auditors.

Beginning with the year ended June 30, 2003 independent auditors can no longer perform basic accounting services that could be construed as auditing their own work.

I recommend the District 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.
Funds Required by $1,450,000 Water Revenue Bonds

The bond indenture of the $1,450,000 Water Revenue Bonds requires various funds be established and maintained such as a sinking fund, reserve fund, and contingency fund. Although these funds are segregated on the District's general ledger, the actual monies in these funds are not maintained in a separate bank accounts, but co-mingled with other funds at LAMP.

I recommend that separate accounts be established and maintained in accordance with the requirements of the bond indenture.

We agree with the above suggestions. We will engage a consultant to train our staff to perform the basic accounting services required during the year and at year end. We will establish separate accounts for the funds required by the $1,450,000 bond indenture.

This report is intended solely for the information and use of management, and others within the organization.

Marsha O. Millican, CPA
**Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates On or After January 1, 2001**

**RETURN TO** Federal Audit Clearinghouse 1201 E. 10th Street Jeffersonville, IN 47132

### PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

1. Fiscal period ending date for this submission
   - Month: [ ]
   - Day: [ ]
   - Year: [ ]
   - Fiscal Period End Date Must Be On or After January 1, 2001

2. Type of Circular A-133 audit
   - [ ] Single audit
   - [x] Program-specific audit

3. Audit period covered
   - [x] Annual
   - [ ] Other - Months
   - [ ] Biennial

4. Date received by Federal clearinghouse

5. Employer Identification Number (EIN)
   - a. Auditee EIN: 4 3 1 7 5 7 1 1 5

6. AUDITEE INFORMATION
   - a. Auditee name: Waterworks District No. of the Parish of Desoto
   - b. Auditee address (Number and street): 302 North Washington
     - City: Mansfield
     - State: La.
     - ZIP + 4 Code: 7 1 0 5 2
   - c. Auditee contact name: John Neilson
     - Title: President
   - d. Auditee contact telephone: (318) 872-0004
   - e. Auditee contact FAX (Optional): (318) 872-0005
   - f. Auditee contact E-mail (Optional):

7. AUDITOR INFORMATION (To be completed by auditor)
   - a. Auditor name: Marsha O. Millican
   - b. Auditor address (Number and street): 754 Dalzell
     - City: Shreveport
     - State: La.
     - ZIP + 4 Code: 7 1 0 3
   - c. Auditor contact name: Marsha O. Millican
     - Title: Owner
   - d. Auditor contact telephone: (318) 221-3881
   - e. Auditor contact FAX (Optional): (318) 221-4641
   - f. Auditor contact E-mail (Optional):

8. AUDITOR CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

   - Signature of certifying official: [Signature]
   - Date: 06/13/03

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

   - Signature of auditor: [Signature]
   - Date: 06/13/03
**PART I - GENERAL INFORMATION - Continued**

8. Did the auditee expend more than $25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
   - Yes
   - No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if significance has been reassigned, see instructions.
   - [ ] Energy
   - [ ] Environmental Protection
   - [ ] Federal Emergency Management Agency
   - [ ] Health and Human Services
   - [ ] Housing and Urban Development
   - [ ] National Aeronautics and Space Administration
   - [ ] National Archives and Records Administration
   - [ ] National Endowment for the Arts
   - [ ] National Endowment for the Humanities
   - [ ] National Science Foundation
   - [ ] Office of National Drug Control Policy
   - [ ] Other - Specify:

**PART II - FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report (Mark (X) one box)
   - [ ] Unqualified opinion
   - [ ] Qualified opinion
   - [ ] Adverse opinion
   - [ ] Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? (Mark (X) one box)
   - [ ] Yes
   - [ ] No

3. Is a reportable condition disclosed? (Mark (X) one box)
   - [ ] Yes
   - [ ] No

4. Is any reportable condition reported as a material weakness? (Mark (X) one box)
   - [ ] Yes
   - [ ] No

5. Is a material noncompliance disclosed? (Mark (X) one box)
   - [ ] Yes
   - [ ] No

**PART III - FEDERAL PROGRAMS (To be completed by auditor)**

1. Type of audit report on major program compliance (Mark (X) one box)
   - [ ] Unqualified opinion
   - [ ] Qualified opinion
   - [ ] Adverse opinion
   - [ ] Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units exceeding greater than $300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 88-3 chapter 10) (Mark (X) one box)
   - [ ] Yes
   - [ ] No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ 520(b))
   - $ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ 530) (Mark (X) one box)
   - [ ] Yes
   - [ ] No

5. Is a reportable condition disclosed for any major program? (§ 510(a)(1)) (Mark (X) one box)
   - [ ] Yes
   - [ ] No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ 510(a)(1)) (Mark (X) one box)
   - [ ] Yes
   - [ ] No

7. Are any known questioned costs reported? (§ 510(a)(3) or (4)) (Mark (X) one box)
   - [ ] Yes
   - [ ] No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ 315(b)) (Mark (X) one box)
   - [ ] Yes
   - [ ] No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)
   - [ ] Agency for International Development
   - [ ] Agriculture
   - [ ] Appalachian Regional Commission
   - [ ] Commerce
   - [ ] Corporation for National and Community Service
   - [ ] Defense
   - [ ] Education
   - [ ] Energy
   - [ ] Environmental Protection Agency
   - [ ] Federal Emergency Management Agency
   - [ ] General Services Administration
   - [ ] Health and Human Services
   - [ ] Housing and Urban Development
   - [ ] Institute for Museum Services
   - [ ] Interior
   - [ ] Justice
   - [ ] Labor
   - [ ] Legal Services Corp
   - [ ] National Aeronautics and Space Administration
   - [ ] National Archives and Records Administration
   - [ ] National Endowment for the Arts
   - [ ] National Endowment for the Humanities
   - [ ] National Science Foundation
   - [ ] Office of National Drug Control Policy
   - [ ] Social Security Administration
   - [ ] State
   - [ ] Transportation
   - [ ] Treasury
   - [ ] United States Information Agency
   - [ ] Veterans Affairs
   - [ ] None
   - [ ] Other - Specify:

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:
- the Federal Audit Clearinghouse archives
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9)

Count total number of boxes marked above and submit this number of reporting packages

Page 2
### PART III  FEDERAL PROGRAMS – Continued

#### 10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Research and development</th>
<th>Name of Federal program</th>
<th>Amount expended</th>
<th>Direct award</th>
<th>Major program</th>
<th>Type(s) of compliance requirement(s)</th>
<th>Audit finding reference number(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 6 468</td>
<td>1 Yes</td>
<td>Drinking Water Loan Fund</td>
<td>$ 918,314.00</td>
<td>2 Yes</td>
<td>2 Yes</td>
<td>P</td>
<td>1</td>
</tr>
<tr>
<td>1 0 760</td>
<td>1 Yes</td>
<td>Rural Development Loan</td>
<td>$ 184,001.00</td>
<td>2 No</td>
<td>2 No</td>
<td>P</td>
<td>1</td>
</tr>
</tbody>
</table>

#### TOTAL FEDERAL AWARDS EXPENDED

$1,102,315.00

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1. See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
2. Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
3. Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions including material weaknesses, questioned costs, fraud, and other items reported under § 350(a)) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis – Bacon Act
- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions

4. N/A for NONE