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**Gravity Drainage District No. 3
Of the Parish Of St. Mary
State Of Louisiana**

**Report on Examination of
Financial Statements**

**For the year ended
December 31, 1998**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 MAR 26 1999

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Gravity Drainage District No. 3
Parish of St. Mary
Morgan City, Louisiana

We have audited the accompanying general purpose financial statements that do not include a statement of revenues, expenditures, and changes in fund balance-budget and actual for the general fund of Gravity Drainage District No. 3, a component unit of the Parish of St. Mary, State of Louisiana, as of and for the year ended December 31, 1998, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District did not adopt a budget and therefore did not present a statement of revenues, expenditures, and changes in fund balances-budget and actual for the operation and maintenance fund (general fund) for the year ended December 31, 1998. Presentation of such statement for those governmental funds legally required to adopt a budget is required by generally accepted accounting principles.

In our opinion, except for the omission of the statement of revenues, expenditures, and changes in fund balance-budget and actual that results in an incomplete presentation as explained in the preceding paragraph, the component unit general purpose financial statements referred to above present fairly, in all

material respects, the financial position of the Gravity Drainage District No. 3 as of December 31, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note I, the boundaries of the Gravity Drainage District No. 3, a component unit of the Parish of St. Mary, State of Louisiana, will be included in the boundaries of a newly created consolidated drainage district. On November 12, 1997, the St. Mary Parish Council created "Consolidated Gravity Drainage District No. 2 of the Parish of St. Mary," a consolidated gravity drainage district which includes the boundaries of Gravity Drainage District No. 3. The Consolidated Gravity Drainage District No. 2 has passed propositions which will allow the District to assess property taxes for the construction, operation, and maintenance of gravity and forced drainage works, the said taxes to be in lieu of and replace the levy of similar taxes previously authorized to be levied by Gravity Drainage District No. 3.

Gravity Drainage District No. 3 will transfer all assets and obligations to Consolidated Gravity Drainage District No. 2 in early 1999. The District will carryout all operations, maintenance, and construction until that time from its own resources. As directed by the St. Mary Parish Council, the District and Board of Commissioners will cease to exist and function at that time.

In accordance with Government Auditing Standards, we have also issued a report dated February 26, 1999, on our consideration of Gravity Drainage District No. 3's internal control structure and a report dated February 26, 1999, on its compliance with laws and regulations.

LeBlanc and Carpenter

Morgan City, Louisiana
February 26, 1999

GRAVITY DRAINAGE DISTRICT NO. 3 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Combined Balance Sheet - All Fund Types and Account Group

December 31, 1998

	<u>Governmental Fund Operation & Maintenance Fund</u>	<u>Account Group General Fixed Assets</u>	<u>Totals (Memorandum Only)</u>	
			<u>9-30-98</u>	<u>9-30-97</u>
ASSETS				
Cash	\$ 90,728	\$ --	\$ 90,728	\$ 90,842
Receivables				
Ad valorem taxes	--	--	--	96,617
Drainage property, equipment and improvements	<u>--</u>	<u>2,665,745</u>	<u>2,665,745</u>	<u>2,665,745</u>
TOTAL ASSETS	<u>\$ 90,728</u> =====	<u>\$2,665,745</u> =====	<u>\$2,756,473</u> =====	<u>\$2,853,204</u> =====
 FUND BALANCE				
Investment in fixed assets	\$ --	\$2,665,745	\$2,665,745	\$2,665,745
Fund balance-unreserved	<u>90,728</u>	<u>--</u>	<u>90,728</u>	<u>187,459</u>
TOTAL FUND BALANCE	<u>90,728</u>	<u>2,665,745</u>	<u>2,756,473</u>	<u>2,853,204</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 90,728</u> =====	 <u>\$2,665,745</u> =====	 <u>\$2,756,473</u> =====	 <u>\$2,853,204</u> =====

See accompanying notes to financial statements.

GRAVITY DRAINAGE DISTRICT NO. 3 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Operation and Maintenance Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances

For the year ended December 31, 1998
with comparative amounts for the year ended December 31, 1997

	<u>12-31-98</u> <u>Actual</u>	<u>12-31-97</u> <u>Actual</u>
REVENUES		
Ad valorem taxes	\$ --	\$127,476
State Revenue Sharing Funds	8,753	14,308
Interest income	<u>3,871</u>	<u>3,659</u>
TOTAL REVENUES	<u>12,624</u>	<u>145,443</u>
EXPENDITURES		
Accounting	1,100	--
Advertise, publish	295	311
Ad valorem tax deductions	--	3,950
Audit fees	3,000	2,500
Bad debts	114	--
Fuel, drainage pumps	23,031	28,150
Insurance	7,901	24,460
Office supplies	413	7
Per diem allowance	6,764	3,900
Repairs and maintenance	66,537	68,252
Drainage System Equipment	<u>--</u>	<u>24,665</u>
TOTAL EXPENDITURES	<u>109,155</u>	<u>156,195</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES	<u>(96,531)</u>	<u>(10,752)</u>
OTHER SOURCES (USES)		
Intergovernmental transfer	<u>(200)</u>	<u>--</u>
NET OTHER SOURCES (USES)	<u>(200)</u>	<u>--</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(96,731)	(10,752)
FUND BALANCE, BEGINNING	<u>187,459</u>	<u>198,211</u>
FUND BALANCE, ENDING	\$ 90,728 =====	\$187,459 =====

See accompanying notes to financial statements.

GRAVITY DRAINAGE DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1998

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GRAVITY DRAINAGE DISTRICT NO. 3 OF THE PARISH OF ST. MARY
STATE OF LOUISIANA

Notes to Financial Statements

December 31, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Gravity Drainage District No. 3 was created and established pursuant to the provisions of an ordinance adopted by the St. Mary Parish Police Jury, in compliance with the provisions of Louisiana Revised Statutes. The District is managed by five board of commissioners as appointed by the St. Mary Parish Council. The District has full power and authority to drain lands in the district by construction, maintenance and operation of gravity and/or forced drainage facilities, including drains, drainage canals, ditches, pumps and pumping plants, dikes, levees and other related works.

The financial statements of Gravity Drainage District No. 3 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Such accounting and reporting procedures also conform to the guides set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units, published by the American Institute of Certified Public Accountants.

The following is a summary of certain significant accounting policies and practices.

Reporting Entity

GASB Statement No. 14, Governmental Reporting Entity, establishes criteria for determining which organizations should be included in a governmental financial reporting entity. The focal point for defining the financial reporting entity is the primary government. The Gravity Drainage District No. 3 is a component unit of the St. Mary Parish Council (primary government) and, as such, these financial reports may be included in the CAFR of the Council for the year ended December 31, 1998. The Gravity Drainage District No. 3 has followed GASB-14 guidance to determine that there are no financial statements of other organizations that should be combined with their statements to form a financial reporting entity.

Fund Accounting

The District reports its financial position and results of operations by using funds and accounts groups. EACH FUND IS A SEPARATE ACCOUNTING ENTITY with self-balancing accounts that include assets, liabilities, fund equity, revenues, and expenditures, or

Fund Accounting (Continued)

expenses, as appropriate. An account group is a self-balancing set of accounts used for financial reporting purposes to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The funds are grouped by fund type and classified into three broad fund categories: governmental, proprietary and fiduciary. There are two account groups. The funds and accounts groups presented in these financial statements are described below.

GOVERNMENTAL FUNDS are accounted for on a current financial resources measurement focus. The balance sheets generally contain only current assets and current liabilities. The reported fund balance (net current assets) is a measure of "available spendable resources." Governmental funds' operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) of net current assets during a period.

The OPERATION AND MAINTENANCE FUND is the general operating and administrative fund of the District. It accounts for all financial resources except those required to be accounted for in another fund or account group.

The GENERAL FIXED ASSETS ACCOUNT GROUP is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date of donation. No depreciation is recorded on general fixed assets.

Basis of Accounting

The MODIFIED ACCRUAL BASIS OF ACCOUNTING is used by all governmental funds types. Under the modified accrual basis of accounting, REVENUES ARE RECOGNIZED when susceptible to accrual (that is, when they become both measurable and available). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers ad valorem taxes as available based on a one-year availability period after year-end. EXPENDITURES ARE RECORDED when the related FUND LIABILITY is incurred except that principal and interest on general long-term debt is recognized when due.

Budgets and Budgetary Accounting

As required by the Louisiana Revised Statutes 39:130 the Board of Commissioners (the Board) should have adopted a budget for the operation and maintenance fund of the District. As further detailed at Note J, the Board believed that its' operations would be included with the newly created Consolidated Gravity Drainage District No. 2

Budgets and Budgetary Accounting (Continued)

and therefore did not adopt an operating budget for 1998. It was later determined that the District would continue its own operations until the consolidated district would begin receiving funding in early 1999.

Cash and Investments

Cash includes amounts in demand deposit checking and certificates of deposit.

State statutes authorize the District to invest in direct obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of principal and interest of such obligations is fully guaranteed by the United States; obligations of U.S. government instrumentalities which are federally sponsored; direct security repurchase agreements of obligations of the U.S. Treasury or U.S. government instrumentalities; time certificates of deposit or savings accounts; and mutual or trust fund institutions which have underlying investments consisting solely of and limited to securities of the United States government or its agencies.

Investments are stated at cost or amortized cost when applicable.

Fixed Assets

All items of property, plant and equipment are recorded in the general fixed assets group of accounts. Such assets are maintained on the basis of original cost (cash paid plus trade-in allowance, if applicable) and no depreciation is computed or recorded thereon. Donated fixed assets are valued at their estimated fair market value on the date donated.

Bad Debts

Uncollectible amounts due for ad valorem taxes are recognized as bad debts in the year they are deemed uncollectible. The failure to utilize the allowance method to account for bad debts is not material to the financial statements.

Total Columns on the Combined Financial Statements

The total columns on the Combined Balance Sheet are captioned Memorandum Only to indicate it is presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE B - CASH AND INVESTMENTS

The Gravity Drainage District No. 3 may invest in time deposits or certificate of deposits of state banks or savings and loan associations or savings banks organized under Louisiana law and national banks having principle offices in Louisiana. At present all of the District's cash and investments are in demand deposits and certificates of deposit. State law requires that deposits be fully collateralized at all times. Acceptable collateralization includes the \$100,000 FDIC/FSLIC insurance and the market value of securities purchased and pledged. Obligations of the United States, the State of Louisiana and certain political subdivisions are allowed as security for deposits. Obligations furnished as security must be held by the District or with an unaffiliated bank or trust company for the account of the District.

The District's cash and investments are categorized to give an indication of the level of risk assumed by the District at December 31, 1998:

Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name)

Cash and investments stated at cost consist of the following:

	<u>Operation & Maintenance</u>
Cash - Checking	\$39,590
Certificate of deposit	<u>51,138</u>
Total cash and investments	\$90,728 =====

Cash and investments categorized by level of risk are:

Amounts insured by the FDIC or collateralized with securities held by the District in its name	\$90,728
Amounts collateralized with securities held by the pledging financial institution's trust department in the District's name	--
Uncollateralized	<u>-----</u>
Total cash and investments	\$90,728 =====

NOTE C - PROPERTY TAXES

Property taxes are levied each November 1 on the assessed value listed as of the prior January 1 for all real property, merchandise and movable property located in the Parish. Assessed values are established by the St. Mary Parish Assessor's Office and the State Tax Commission at percentages of actual value as specified by Louisiana law. A reevaluation of all property is required to be completed no less than every four years. A reevaluation was completed for the list of January 1, 1996. Taxes are due and payable December 31 with interest being charged on payments after February 1. The Tax rate for the year ended December 31, 1997 was \$4.49 per \$1,000 of assessed valuation for general maintenance of the system. The District did not assess a tax mileage for 1998 because of the assessment made for 1998 by Consolidated Gravity Drainage District No. 2

NOTE D - BOARD OF COMMISSIONERS AND PER DIEM ALLOWANCE

As of December 31, 1998, or during the year then ended, the following individuals served on the Board of Commissioners for Gravity Drainage District No. 3 or Consolidated Gravity Drainage District No. 2 and were paid for meetings attended during 1998.

<u>Name</u>	<u>Gravity Drainage District No. 3</u>	<u>Consolidate Gravity Drainage District No. 2</u>	<u>Total</u>
Reynold Barousse	\$ 975	\$1,365	\$2,340
R. Mendoza	845	--	845
E. E. Opitz	260	--	260
Wilson Stephens	585	--	585
Harrel Wilson	910	1,365	2,275
R. J. Percle	<u>455</u>	<u>--</u>	<u>455</u>
	\$4,030	\$2,730	\$6,760
	=====	=====	=====

NOTE E - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance 12-31-97</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance 12-31-98</u>
Land	\$ 8,366	\$ --	\$ --	\$ 8,366
Drainage System	<u>2,657,379</u>	<u>--</u>	<u>--</u>	<u>2,657,379</u>
Total General Fixed Assets	\$2,665,745	\$ --	\$ --	\$2,665,745
	=====	=====	=====	=====

All drainage system property, equipment and improvements are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

NOTE F - SUBSEQUENT EVENTS

The St. Mary Parish Council adopted Ordinance No. 1352 on November 12, 1997 creating Consolidated Gravity Drainage District No. 2 of the Parish of St. Mary, State of Louisiana. This consolidated district includes all properties within Gravity Drainage District No. 3 as well as Gravity Drainage District No. 5 and certain additional lands adjacent to the Districts and presently not included within the boundaries of any drainage district. Consolidated Gravity Drainage District No. 2 has submitted a proposition that received voter approval in May 1998 that includes millage for operation and maintenance and millage for repayment of a substantial bond issue for capital improvement projects. This proposition received voter approval and the millages will automatically replace any existing operation and maintenance assessments on record by Gravity Drainage District No. 3 and Gravity Drainage District No. 5. The operations of Gravity Drainage District No. 3 and Gravity Drainage District No. 5 would be carried out by Consolidated Gravity Drainage District No. 2.

The tax assessment for operation and maintenance of the drainage system of Gravity Drainage District No. 3 was not assessed for the year 1998. The Board of Commissioners of Gravity Drainage District No. 3 determined it had the resources available to sustain its operations until early in 1999 when the District will transfer all assets and obligations to Consolidated Gravity Drainage District No. 2. As directed by the St. Mary Parish Council, the District and its' Board of Commissioners will cease to exist and function at that time.

NOTE G - PRIOR PERIOD ADJUSTMENT

The December 31, 1997 Statement of Revenue, Expenditures, and Changes in Fund Balance was restated to correct an error in the classification of a new pump engine that was purchased for \$24,665. This item was previously recorded as maintenance and repairs and has been restated as a capital expenditure for drainage system equipment. This adjustment has no effect on net income for the current or previous period but does increase the total asset cost in the General Fixed Asset Account Group by \$24,665.

GRAVITY DRAINAGE DISTRICT NO. 3
OF THE
PARISH OF ST. MARY
STATE OF LOUISIANA

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

PERIOD ENDED DECEMBER 31, 1998

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

To the Board of Commissioners
Gravity Drainage District No. 3
Parish of St. Mary
Morgan City, Louisiana

We have audited the financial statements of the Gravity Drainage District No. 3 (the District), a component unit of the St. Mary Parish Council, State of Louisiana, as of and for the year ended December 31, 1998, and have issued our report thereon dated February 26, 1999. In our report, our opinion was qualified because the District failed to adopt and present a statement of revenues, expenditures, and changes in fund balance - budget and actual for the operation and maintenance fund (general fund). We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether Gravity Drainage District No. 3's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests of compliance disclosed the following instance of noncompliance that may be material to the general purpose financial statements but for which the ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in Gravity Drainage District No. 3's 1998 financial statements. There were no prior year findings or management letter comments.

1. Local Budget Act

Finding: LSA-RS 39:1301 requires that the Board of Commissioners should have adopted a budget for its' general fund, the operation and maintenance fund. The budget and the adoption process should have been completed in accordance with the Local Budget Act. The District did not prepare a budget for the year ending December 31, 1998.

Recommendation: The Board of Commissioners must comply with the Local Government Budget Act (LSA-RS 39:1301-14).

Response: The Board of Commissioners responds that in years prior to 1998, the Board had complied with the Local Budget Act. The Board has utilized previous budgets as a management control devise, but remained ever conscious that any proposed expenditures did not exceed estimated funds available during the period. Uncertainties surrounding the formation and funding of the newly created Consolidated Gravity Drainage District No. 2 resulted in the Board not preparing and adopting a budget for 1998. In early 1999 the assets and obligations of District No. 3 were transferred to Consolidated Gravity Drainage District No. 2.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Gravity Drainage District No. 3's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Gravity Drainage District No. 3's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Our examination disclosed that there is very little segregation of duties within the District's accounting function, particularly in the areas of cash receipts, bank reconciliations, cash disbursements, general ledger and journal entries. This weakness is due to the fact that the District employs only two persons in the bookkeeping function. Due to the lack of segregation of duties, possible errors or irregularities could occur in the accounting records and not be detected. Understandably, due to the limited number of accounting personnel, the most ideal system of internal control or the most desirable accounting system may not be practicable. Also, the cost of additional employees might exceed any benefits gained. The management of the District is well aware of the loss of internal control that results with their limited staff and are constantly on watch for any problems that would arise.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Commissioners (management), St. Mary Parish Council, and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

LeBlanc and Carpenter

February 26, 1999
Morgan City, Louisiana